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EDITED TRANSCRIPT

CVX - Chevron Corporation's 2014 Security Analyst Meeting

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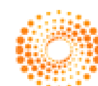

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CORPORATE PARTICIPANTS

Jeff Gustavson *Chevron Corporation - General Manager, IR*

John Watson *Chevron Corporation - Chairman, CEO*

Pat Yarrington *Chevron Corporation - VP, CFO*

Mike Wirth *Chevron Corporation - EVP, Downstream and Chemicals*

George Kirkland *Chevron Corporation - Vice Chairman and EVP*

Jay Johnson *Chevron Corporation - SVP Upstream*

CONFERENCE CALL PARTICIPANTS

Arjun Murti *Goldman Sachs - Analyst*

Doug Terreson *International Strategy & Investment - Analyst*

Ed Westlake *Credit Suisse - Analyst*

Roger Read *Wells Fargo - Analyst*

Doug Leggate *Bank of America Merrill Lynch - Analyst*

Robert Kessler *Tudor, Pickering, Holt & Co - Analyst*

Evan Calio *Morgan Stanley - Analyst*

Faisal Khan *Citigroup - Analyst*

Asit Sen *Cowen & Company - Analyst*

Allen Good *Morningstar - Analyst*

Iain Reid *Bank of Montreal - Analyst*

Paul Cheng *Barclays Capital - Analyst*

Paul Mecray *Tower Bridge Advisors - Analyst*

Justin Jenkins *Raymond James - Analyst*

PRESENTATION

Jeff Gustavson - *Chevron Corporation - General Manager, IR*

Good morning and welcome to Chevron's 2014 Security Analyst Meeting. I'm Jeff Gustavson the General Manager of Investor Relations. It's great to have you here with us today. I'd also like to welcome those of you joining us via webcast.

Before we begin, I have a few important reminders. First, and in the interest of safety, please take a moment to locate the nearest exit. In the event of an emergency, the St. Regis Hotel staff will provide further instructions.

Second, please silence all cell phones and other digital devices. And finally, remember to take your name badge with you if you need to leave the room. You will need it in order to reenter.

During the program today, we will provide a comprehensive update on Chevron. We will begin with both corporate and financial overviews followed by more extensive discussions about our primary business segments, namely Downstream and Chemicals and of course, our Upstream business.

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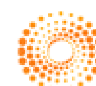

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Our agenda features presentations by our Chairman and Chief Executive Officer, John Watson; our Vice President and Chief Financial Officer, Pat Yarrington; the Executive Vice President of Downstream and Chemicals, Mike Wirth; the Vice Chairman and Executive Vice President of Upstream, George Kirkland and Jay Johnson, the Senior Vice President of Upstream. At the conclusion of Mike's segment, we'll take a short break. We'll also have plenty of time for questions later in the program.

Other executives here with us today include, Rhonda Zygocki, the Executive Vice President of Policy and Planning and Steve Green, our Vice President of Policy, Government and Public Affairs.

For those joining via webcast, I'd like to invite you to participate in the Q&A segment. Please submit your questions to us by 11 AM Eastern Time through the investors section of the company's website, which can be found at chevron.com.

And finally, today's presentation contains estimates, projections and other forward-looking statements. Please take a few moments to review the Safe Harbor statement which is available in the appendix of your booklets and on our website.

Thank you for your attention. I'd now like to introduce our Chairman and Chief Executive Officer, John Watson.

John Watson - *Chevron Corporation - Chairman, CEO*

All right, thanks Jeff. Good morning. I'd like to welcome everyone to Chevron's 2014 Security Analyst Meeting including those of you listening via webcast. We're looking forward to providing you information about our performance, our strategies and the outlook for our business as well as answering your questions.

Let me start by highlighting some of the key messages we plan to convey this morning.

First, world energy demand continues to grow and crude oil and natural gas will remain vital in meeting that need. Satisfying demand growth is a great business opportunity for us but there are cost and other challenges.

Second, our strategies remain consistent and are well aligned with these macro realities. We remain focused on execution both in our base business and major capital projects.

Third, we have a strong portfolio with industry leading financial and operating performance.

Finally, we're poised to deliver significant growth and production to the end of the decade and this should serve as a catalyst for shareholder value creation between now and then.

I'd like to start today by highlighting our personal and process safety performance. We had just 58 injuries that required a days away from work all year, or 0.02 for 200,000 hours work. This is remarkable given that we have over 250,000 employees and contractors working on our sites each day and they log some 590 million hours of work. We continue to lead the industry.

We also remain focused on process safety. Simply put, this is keeping hydrocarbons in the pipes and vessels that designed to contain them. Last year, I highlighted spill volumes, we're still world class on that metric. This year, I'm showing the industry's standard measure for Tier 1 Loss of Containment performance, which includes oil and gas releases that result in spills, fires and other incidents. We're not yet where we want to be but we are improving.

Let's move on to the macro-environment. Economic growth requires affordable energy. Here in the US, the shale boom has boosted supplies, lowered prices for consumers and aided job growth. It has greatly contributed to this country's economic recovery and made the US the envy of countries around the world. With a growing global population and more disposable income, people will consume more energy.

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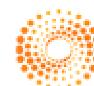

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By 2030, global energy demand is expected to grow by about a third or 2% per year. Oil and natural gas is projected to make up over half of total energy demand for the foreseeable future because it's affordable and readily available to consumers. Renewables such as wind, solar and biofuels will contribute more but increasingly we're seeing policy makers taking a close look at the cost of their renewables programs. The continuing industry challenge is provide the energy the world needs in an affordable manner.

Let's look at the supply challenge in greater detail. This chart compares future demand projections for crude oil to the existing supply. Industry production, shown in dark blue, declines about 15% per year without reinvestment.

With reinvestment in existing fields, base business infill drilling and work overs can reduce decline to 4 to 5% per year. But base business reinvestment alone will not satisfy future demand requirement. Continued exploration and industry investment in new fields is needed.

We estimate that over 200 billion barrels of base business projects and new field production will be needed by 2030 to meet demand. These new energy sources are from increasingly complex fields in locations with notable geological, technical and geo-political hurdles.

It will require enormous investment in both people and capital to meet demand. We estimate $7 trillion to $10 trillion will be required in this period, or over $500 billion per year.

Let's take a closer look at the cost side of the equation. We believe oil prices reflect the marginal cost of supply plus the premium that can vary overtime for uncertainty and instability in supplies. This chart illustrates the sources of new supply and the range of cost to bring those supplies to market according to Wood Mackenzie.

Supply source from OPEC primarily in the Middle East will continue to be the lowest cost source available. These countries clearly remain critical to meeting future world demand. Less conventional production sources such as deep and ultra-deep water, shale and tight resources and oil stands are growing in importance. In fact, these sources represent the majority of near term developments to the end of the decade. While we can debate the specifics about the range, there's little debate that that breakeven prices at the margin are increasing and approaching $100 per barrel or more.

The quest to meet the demand wedge of the last decade resulted in higher prices. Higher prices created incentives to find and develop oil resources, putting upward pressure on the cost of oilfield goods and services. The chart in the left shows industry cost more than doubled in the last decade with only a short break to the world financial crisis. And contractors and suppliers that provide critical goods and services continue to have backlogs.

The chart on the right shows the backlog in four key areas, add in tight local labor markets, civil unrest and other risks and the challenge to our industry to meet demand is great.

Chevron has responded to these conditions in many ways. Notably, we've instituted much greater contractor and supplier oversight into our project management system. We've also said no when cost get out of line. The Rosebank project is one example where a good oil resource development is being slowed to improve the expected economic return.

Stressed projects will be enabled by lower costs, better fiscal and other conditions, or they won't happen. And if enough projects are deferred, prices rise. This is how markets work. Growing world demand inexorable decline curve and replacement cost realities and traditional oil geopolitics make us bullish on oil.

Let's move on to LNG. This chart shows the anticipated demand growth and sources of new supply. Demand for LNG is expected to double by 2025. Most of this growth will occur in Asia primarily China and India but other customers are entering the market. There are now 29 countries purchasing LNG.

On the supply side, we see a big opportunity, well over 100 million tons of new LNG to meet demand by 2025. This opportunity is on top of supply that will come from the four sources already considered in the bar on the chart, that's existing supply, international and US projects under construction and other probable US projects.

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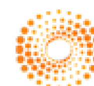

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The scale of investment required for greenfield LNG projects to meet this demand is significant. Buyers and sellers will need to work together to find a value proposition that works for both. Sellers need a revenue stream that supports an economic investment and buyers need reliable supply that is priced competitively with their alternatives.

What's worked for US projects reflects unique circumstances - low cost resource, existing pipelines and brownfield sites. A different value proposition will be required to enable the next wave of greenfield projects.

To sum up my view on markets, we believe that the world economy will continue to grow and energy demand will grow with it. There's underlying strength in the oil markets resulting from inevitable field decline and in LNG markets from significant demand growth. It is a great business environment for our company.

Now our success has been driven by very consistent strategies. They are essentially unchanged from last year and remain appropriate for the macro-realities I've just described. Our upstream is growing profitably and is focused on building legacy assets primarily associated with crude oil and LNG.

Our downstream and chemicals business has improved returns and is pursuing selective growth opportunities in higher return sectors. Our gas, mid-stream and technology organizations support the upstream and downstream businesses in meeting our objectives.

And finally, we are selectively committing resources to renewables and energy efficiency initiatives.

We focus on growing value consistent with our strategies. Our business requires disciplined investment decisions as we have many choices of owned and available opportunities.

In the upstream, it starts with the rocks. For new assets, we look for high quality resource with attractive fiscal terms and the potential to be a scale. We favor early entry where we can apply our proprietary technology and capabilities over time.

We are value driven. We apply standard investment criteria to new and owned opportunities using discounted cash flows. We use probabilistic tools that consider a range of outcomes and risks, including those listed on the chart. We set the overall spending level at the corporate center to deliver a balance of current return to shareholders via dividend and long term value growth via investment.

We keep spare capacity on the balance sheet to mitigate risk of commodity prices and other factors. Most of our investment dollars go to the upstream as this is where we feel returns are best. Downstream investments are more limited, generally geared toward reliability and maintenance in our refineries and petrochemical projects.

We sell assets early in life if they can't make our economic hurdles or late in life when they lack materiality and may compete better for forward investment with another owner. Selling midlife assets is generally not favored as this is when we can add value best, applying our technology and know-how.

Our strategies, investment approach and funding decisions have provided us with a superb portfolio of developed assets and new opportunities. We're predominantly an upstream company. Within the upstream, we remain weighted to oil and oil-linked pricing projects going forward.

Our developments are increasingly legacy type in nature. These assets are typically plant, not resource constrained with flatter decline rates and long-lived cash flow profiles. Many have future expansion potential. We're also well diversified geographically with a high proportion of current investments going to Asia and North America.

Let me shift to financial performance where our strong portfolio continues to generate peer leading results. 2013 was a solid year for the company. We posted earnings of $21 billion and achieved a return on capital employed of 13.5%. Strong earnings in cash flow support this sizeable increase in the dividend, our 26th consecutive annual increase.

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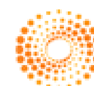

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We also repurchased $5 billion of our shares and funded a $42 billion capital program that includes $4 billion in new unconventional opportunities and exploration. I'm very pleased with our shale and tight formation additions in the Permian, Duvernay, Liard and Horn River assets in North America, Cooper Basin in Australia and Vaca Muerta in Argentina.

I also like the conventional acreage we've picked up in the Kurdistan region of Iraq. As I indicated last year, we're returning our balance sheet to a more traditional AA structure though it remains pristine.

Our strong earnings have been a function of our portfolio and investment choices. We continue to invest wisely in order to profitably grow our business. We've demonstrated the ability to invest for superior growth while remaining very competitive on ROCE. We're second in the peer group despite significant working progress capital on the books and we're competitive on this measure not only against our largest integrated peers but also relative to large independents, shown by the green line on this chart.

We also think it's important to grow our share -- our earnings per share overtime. We continue to lead our peers on this index rolling five year EPS measure. We believe growing the numerator is key to our leadership on this metric. As we ramp up production over the next few years, we believe the outlook for maintaining this leadership is good.

With leading performance in operating and financial metrics, it should come as no surprise that we continue to lead in total shareholder return as well. This is the fifth consecutive year we've led our peer group in the trailing five year TSR. We also lead the peer group and the S&P 500 in 10 year TSR. If I updated these five and 10 year ranking through yesterday's closing prices you would see we still lead our competitors.

There are two specific topics related to our plan that I would like to address: production growth targets and capital spending. In early 2010, we set a target to grow upstream production to 3.3 million barrels of oil and gas equivalent per day by 2017. We had confidence in putting out this target because we knew we have a strong queue of opportunities that would compete well for capital. We had just taken FID on the Gorgon and we expected Jack/St. Malo, Wheatstone and others would soon follow.

Our growth strategy remains intact though some things have changed. Oil prices are higher and US gas prices lower than we expected and we've made some portfolio choices that now impact our outlook for 2017. Our expectation for 2017 production is now 3.1 million barrels per day, up 20% from 2013, with more growth through the rest of the decade.

There are four categories of impacts that explain that change from 3.3 projected last year to 3.1 this year. First, higher oil prices reduce cost reimbursement and other entitlement barrels in some contracts. We've moved our assumed oil price from $79 per barrel first assumed in 2011, to $110 per barrel that it has averaged over the last three years. This impact should come as no surprise as our assumptions were clear. And of course the overall earnings impact of higher prices is positive.

Second, as a result of continued low gas prices in the US, we've slowed the pace of our investments in the Marcellus and extended the time period of our financial carry. This is a value-based decision that reduces production through 2017.

Third, we'll be selling more assets than originally planned. We expect total company assets sale proceeds of $10 billion over the next three years, most of which will occur in the upstream. Finally, the net effect of portfolio additions, project deferrals and project slippage has had a small impact overall. We are also including an allowance for unknown events.

In December, we released our 2014 capital and exploratory budget of $39.8 billion. This represents about a $2 billion reduction from 2013 spending. We've indicated 2013 represents a relative peak in total spending and 2014 represents a peak for LNG project spend at approximately $10 billion, mostly on Gorgon and Wheatstone.

We've also indicated that we expect C&E spending to flatten over the next few years and I expect that to be the case through 2016. Spending in 2017 and beyond will be a function of project approvals and the cost and price environment. I do expect our pre-productive capital intensity to decline significantly as we move forward.

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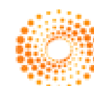

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We've been asked why our spending does not decline after the Gorgon and Wheatstone peak, and the answer is straightforward - because spending on projects like the Tengiz expansion, Permian tight oil play and Gulf Coast petrochemical complex are ramping up. These investments are a very good use of funds. You'll hear much more about production, financials and projects from Pat, Mike, George and Jay later this morning.

Before we get started, let me remind you of some important organizational changes that took place effective January 1. Jay Johnson now has responsibility for upstream operating units. Joe Geagea has responsibility for key technical support and service organizations that serve upstream, downstream and midstream businesses. Pierre Breber now runs our gas and midstream business. Long time followers of our company know these individuals well. Jay and Joe report to George and when George retires later next year, they will report to me. Other key executive positions including Mike and Pat have not changed and I have a very good team.

Now let's get started with more details from Pat on financials.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Okay, good morning everyone and thank you John. It's nice to see you all here again. This year I'll be covering our capital plans and specifically what they deliver from a competitive standpoint. I'll offer some guidance on assets sales and capital intensity. I'll also review our balance sheet and offer insights on how we use our financial strengths. And finally, I'll close with the all-important value proposition, highlighting the growth and operating cash flows that will result from our investment and the support they provide for enterprise value growth and future shareholder distribution.

Our focus is on managing the business to generate strong returns and healthy cash margins. These lead to competitive distribution and also enables reinvestment for future growth. Here's a simple depiction of what matters in our business, the investment cycle.

It starts at the top by having a high quality project queue. A strong queue allows us to be selective and disciplined in our investment. It means that projects compete internally for capital and that not all projects are funded.

The best investments produce strong earnings and cash margins which in turn sustain a strong balance sheet. They also allow us to amply reward shareholders through both share price appreciation and distribution. We delivered.

We have created the top quality queue in the industry. We have generated the highest cash and earnings margin, we have maintained a strong balance sheet and rewarded our shareholders. We've been reinvesting to revitalize the queue, which support continued value growth.

Let's look in more detail at our investment priorities over the next three years. We're anticipating C&E outlays at around $40 billion for each of these years. On the left is spending by region, our outlays continue to be geographically diverse with weighting towards Asia and North America. Our investments in Asia include the Gorgon and Wheatstone LNG projects. We expect peak LNG spending will occur this year and that will then decline as these two projects move towards first production.

North America is expected to capture a growing portion of our near term investments including the Gulf of Mexico, the Permian and Canada.

On the right is spending by category. Upstream accounts for almost 90% of the total while downstream and chemicals account for about 8%. Over the three years, almost 60% of our capital program is dedicated to major capital projects for upstream, principally LNG, deep water and shale and tight resource projects that fuel our future growth.

Base business outlays are projected to be just over 30% of our total spending with shale and tight resources comprising about 11%.

Having a strong investment profile is a good thing, if it's being investing wisely. That's how we create shareholder value. On the left, I show our reinvestment ratio, the proportion of cash from operations put back into the business. On a historical basis, we continue to be only mid-pack in terms of reinvestment rates. And going forward as cash from operations increases and as capital spending levels out, we see this ratio decreasing steadily over the next several years.

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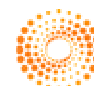

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On the right, is what our average reinvestment profile is expected to generate for investors. The strongest production growth in the peer group over the medium term and, per Wood Mackenzie, out to the end of the decade.

Saying it another way and this is a key differentiator. We offer notably stronger production growth for reinvestment dollar than the peer group.

Portfolio rationalization is another important element of capital discipline. Looking back three years, our asset divestment proceeds have totaled around $7 billion coming largely from our midstream and our downstream operations.

Looking ahead the next three years, we expect proceeds from divestments to increase to about $10 billion overall. These divestments will be more focused in our upstream operations and George will elaborate more fully about this later this morning.

This is a routine evaluation for us, identifying assets that either do not currently or will not in the future compete as effectively for capital against other assets in our portfolio. They are value-based decisions that take into account the lifecycle of the assets.

We have assets already identified as potential sales candidates but we generally do not pre-announce these for obvious commercial reasons. The outcomes here in terms of timing and eventual proceeds will be driven by one thing, the ability to capture good value.

We've been able to invest heavily for growth and at the same time remain very competitive on returns. Our recent returns reflect a high proportion of pre-productive capital as you see on the far left. We anticipate pre-productive capital decreasing noticeably in each of the next three years as several of our large flagship projects come on line and as capital spending evens out.

This chart shows the growth in our cash flow per share index to 2008. For the last four years, we've led the peer group. Our cash flow per share has grown by 25% over the last five years while most peers have declined.

Our past investments have delivered high value growth, growth that took advantage of the strong oil price environment. These investments are now substantial cash generators. We're poised to repeat this cycle as our current slate of projects comes on line.

At the same time we're investing for the future, we're also rewarding our shareholders today. For several years now, we've had superior dividend growth; we've increased the dividend at a compound annual rate of nearly 11% over the past 10 years. This is the best in the peer group and almost 50% better than the S&P 500.

Since 2004, when we first initiated the share repurchase program, we've had $40 billion of buyback resulting in a net 11% reduction in shares outstanding. We worked to achieve the right balance between what's returned to shareholders and what's reinvested in the business. We've had superior three year, five year and 10 year total shareholder returns which validate our cash use decisions. And at slightly under 6% our current distribution yield is very competitive.

In the past, I've discussed our commitment to maintain our AA credit rating. I've also discussed our view of the balance sheet as a risk mitigator and as a tool to both weather and take advantage of unforeseen circumstances and opportunities.

These objectives remain intact. As we've said we would, we moved towards a more traditional capital structure in 2013 and we expect that trend to continue. We levered up modestly last year, ending the year with a debt ratio of 12%.

We're in a very sound position to fund competitive and growing shareholder distribution along with our capital program. This outcome is fully consistent with our previous guidance on our financial priority. Our first priority is to maintain and grow our dividend. We're doing this.

Our second priority is reinvesting in the business to give our shareholders a stake in a growing and more valuable enterprise. Our third priority is to maintain our financial strength and flexibility. Our balance sheet remains robust.

And finally, we're committed to returning additional available cash to our shareholders. We've done this in most years of the last decade.

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We've consistently applied these priorities and we've sensibly balanced these objectives over time. I see this consistency of approach and outcome continuing in the future.

Last March I highlighted the significant growth in cash generation that we expected and that expectation hasn't changed. Assuming $110 average Brent price, our operating cash flows are expected to exceed $50 billion in 2017.

In fact, we see cash generation growth well beyond that as indicated here by the blue arrow. Cash C&E in 2017 and beyond is hard to predict with any degree of certainty. Many elements will come into play. For example, commodity prices, supporting a larger base business, the precise timing of project development and of course industry cost level.

While it is hard to precisely know the angle for each of these arrows, I do feel confident saying the gap between the two, or our free cash flow, is expected to widen over time. The projects we're investing in both upstream and downstream are attractive. We believe it will be accretive to our current cash margins making our portfolio in 2017 a stronger cash generating portfolio than today's.

We expect our current investments will lead to further share price appreciation and will also enhance our ability to sustain and grow shareholder distribution in the years to come.

I'd like to now turn the podium over to Mike to discuss our downstream and chemicals business.

Mike Wirth - *Chevron Corporation - EVP, Downstream and Chemicals*

Thank you Pat and good morning. It's a pleasure to see everyone again and to discuss Chevron's downstream and chemicals business.

I'll begin with an overview of our portfolio and our advantage positions. The pie charts in the center panel show how we plan to change our capital employed over the next three years. We continue to shift our portfolio towards the higher return lubricants and chemicals segments with less relative exposure to R&M outside of Asia Pacific.

In chemicals, our olefins business has access to advantaged feed stocks in North America and the Middle East and our aromatics business has easy access to the growing North Asia market. Our refining assets are concentrated around the Pacific Rim where we have more than three quarters of our total capacity and the top hydrocracking position. This sets us up well for future demand growth particularly for diesel and jet fuel.

Moving to strategy my message is unchanged. We're focused on delivering competitive returns and growing earnings. Our supporting strategies of operational excellence, growth in the higher return segments, our focused R&M portfolio and integration with our upstream business are the foundation of everything we do.

I'll expand on the first three items in that list throughout my presentation. I'd like to take a minute to talk about the fourth - integration with upstream. We routinely run equity crude in El Segundo, Pascagoula, Salt Lake City, and several refineries in Asia.

Beyond that, we support upstream with both people and technology; supporting commission, start-up, turnarounds and operations. We have refining experts in Nigeria, Angola, Kazakhstan, Venezuela, Australia and other upstream units around the world. We're committed to delivering competitive returns within the segments and also adding value to our upstream.

I'll break the rest of my comments today into three sections. First, I'll review the downstream business environment and market fundamentals, then I'll cover our performance in 2013 and I'll close with a discussion about our plans for growth.

The demand picture hasn't changed much since last year. The fundamentals underlying our business reflect the realities of the global economy. On the left hand chart, we can see that petrochemicals and lubricants are expected to experience strong demand growth for quite some time.

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On the right hand charts, the outlook for fuels is positive but less bullish. We've eliminated our exposure to Europe where margins are under the most pressure and we like our position in Asia, where we'll see the most demand growth for all products.

Drilling down a level, changing feedstock dynamics are reshaping the landscape here in North America, driving down the cost of raw materials. The left hand chart shows ethylene cash costs by feedstock and region since 2008. The Middle East continues to lead, with North America gas based crackers now a close second. Both have a significant advantage over naphtha based plants in Asia. Our ethylene portfolio is positioned entirely in the two most attractive regions.

The right hand chart illustrates one external view of how North America production growth continues to impact crude price differentials. Over the last few years, discounted crude pricing has primarily benefitted mid-continent refiners. As infrastructure brings more supply to the Gulf Coast, other grades are also beginning to discount to Brent, illustrated here by LLS. As this effect moves into the market, we'll see better crude opportunities in our large coastal facilities. Both these trends benefit our downstream and chemicals business.

I'd also like to make a few comments about the regulatory environment. Over the last half century, we've experienced a steadily evolving landscape of new regulations. When first introduced, these rules tend to create uncertainty. In time, markets and companies adapt and the stronger competitors succeed.

The most recent chapter in these stories is driven by concerns about climate change and the same pattern of adaptation and adjustment has begun. At the federal level, EPA has proposed lower blending targets and we're starting to see the acknowledgement that the RFS is flawed and should be repealed or reformed.

In California, we're earlier in the implementation process than at the federal level but some of the same realities are beginning to emerge. The Air Board intends to make modifications to the LCFS and key policy makers are concerned about keeping California competitive.

While it's a little early to predict exactly how the regulations will evolve, I expect they will as consumers, businesses and economics will demand it. With our strong portfolio and decades of experience in adapting and succeeding in this kind of an environment, I'm confident we'll meet these challenges just like we always have.

Now let's look at performance. 2013 was different than the recent past, both for our competitors and for Chevron. The entire industry experienced a retrenchment of earnings and returns last year. At $1.25, R&M earnings per barrel are number two among our peers. We delivered a 10% return on capital employed which we expect to also rank number two when the final 2013 capital employed data is available. So while industry results trended downward, we maintain the relative gains we've seen over the last few years.

I'd also like to talk about petrochemical financials. Chevron Phillips Chemical, or CPChem, is the largest private sector petrochemical producer in the Middle East and the largest producer of high density polyethylene in the world. CPChem has delivered peer leading cash returns for multiple years now. A key element of this performance has been outstanding reliability as evidenced by the utilization rate which has been well above the industry average over the last three years.

CPChem also has efficiency, proprietary technology and scale. With 100% of their ethylene capacity in the feed stock advantaged regions of the Middle East and North America, this is a formula for excellent financial results today and well into the future.

Reliability is a top priority across all our business segments. For the three biennial Solomon surveys beginning in 2006, Chevron ranked number one in refinery utilization. In the later survey period for 2012, we operated at nearly the same level as our industry leading performance in 2010.

However, we slipped to number two due to the impact of the August 2012 fire at Richmond. In 2013, utilization declined further primarily due to the timing of the Richmond restart. But since then we're back on track as evidenced by our second half 2013 utilization of more than 84%, shown by the yellow dot on the chart. We finished last year strongly, and carried a good momentum into 2014.

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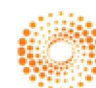

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Top tier reliability remains essential to our operations and the key to profitability. We've redoubled our focus on specific initiatives to further improve reliability and turnaround execution.

In the past, I've explained how we've created a more focused refining and marketing portfolio in geographies with more attractive underlying fundamentals. Our marketing business flows primarily through independent distributors and retailers. This keeps capital and operating cost low and puts a premium on strong brands.

In the Americas, our Chevron and Texaco brands anchor our refinery output. Chevron commands the highest brand premium of any American gasoline brand. We hold the number one market share on our core market of five western states.

In 2013, we saw sales increase nearly 5% in a market that was up less than 1%. And we expect similar results in Asia Pacific where the Caltex brand has been a star for more than 75 years. Initiatives to optimize station ownership and locations are targeted to increase market effectiveness 11% over the next four years. We'll continue to keep our product quality high and our brands strong.

Now let's talk about portfolio. While we've done a lot over the last several years, we're not finished. We continue to divest non-strategic assets. Last year, we completed sales of our pipeline and terminal systems in the Northwestern US, a terminal and retail network in Florida and our Romanian and Czech Republic lubricants businesses.

Over the last decade, we generated more than $ 12 billion as a result of portfolio actions. Yesterday, we closed the sale of our fuels business in Egypt. We expect to close on the sale of Pakistan this year and we've got a number of midstream assets we expect to sell this year and next.

Now turning to the future, I'll summarize our plans for targeted growth in key segments and what you can expect to see over the next few years. I'll start with chemicals and our advantaged portfolio.

CPChem will start up the world's largest on purpose, one-hexene plant in Texas this year. They're in a first mover position on a world scale ethane cracker and derivatives units on the Gulf Coast, and is the only company holding approved permits to start construction. By 2017, CPChem's olefin and polyolefin capacity will increase 32% to more than 10 million tons per year.

In Asia, GS Caltex's Yeosu complex is one of the largest single site aromatics facilities in the world. They're planning to expand this capacity by 35% over the same time period, contingent upon project economics and the ability to fund internally to serve the expanding North Asia market.

Both our olefins and aromatics businesses have robust growth plans centered on world scale facilities and are well positioned to deliver profitable growth.

Now let's move to lubricants and specialty chemicals.

Chevron's portfolio in these higher margin businesses is unique. We're the only major oil company with a wholly owned additive business, a leading premium base oil position and top tier technology in the high growth segments like heavy duty engine oils.

Premium base oils are exceptionally low in sulfur and aromatics and offer significant performance advantages. We're nearing completion of the Pascagoula project which will increase our capacity more than 70% and make Chevron the largest producer of premium base oil in the world.

Oronite is a leading producer of specialty chemical additives and has world scale manufacturing plants and technology centers in all key demand regions. This year, our Singapore plant already the largest in the Asia is expected to more than double its initial capacity with the completion of a major expansion project. We're also increasing capacity in France. Oronite's production capacity is scheduled to expand 20% by 2017 in line with anticipated global demand growth.

Here's a summary of our major capital projects. CPChem plans to start up a new hexene plant this year and is targeting 2017 for their new ethylene and derivative units. Pascagoula base oil should reach mechanical completion in the next few weeks and be at full production by mid-year.

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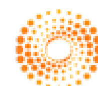

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Oronite's expansions in France and Singapore are slated to come on line in phases beginning this year and a new paraxylene unit in Korea is expected to be complete by the end of 2017. These projects are in the right location with advantaged feed stock or market access and all of them leverage our existing asset base, technologies and partner relationships to drive future earnings growth.

So to close, I'd to summarize three points. First our strategy is sound. We'll deliver competitive returns through executing the fundamentals in our base business with a smart and focused portfolio and assets that have the scale, flexibility, and configuration to be competitive.

Second, safety and reliability are the foundation of everything we do. We're committed to further strengthen our performance in these areas which enables superior profitability. Finally, we're investing in the right growth projects, targeted in the right markets and segments to strengthen and diversify earnings and sustainably deliver top tier competitive results.

That concludes my remarks. We'll now take the 15 minute break. Please remember to take your badges with you so you can get back in. See you in 15 minutes.

[break]

PRESENTATION

George Kirkland - *Chevron Corporation - Vice Chairman and EVP*

Good morning. It's my pleasure to once again review with you Chevron's upstream business. Today I'll provide insights on our 2013 performance, our industry leading portfolio and with Jay, cover our tremendous growth story.

First, an overview of Chevron's upstream portfolio. Chevron has a diverse upstream portfolio with production in 26 countries and in nearly all of the world's key hydrocarbon basins. Our upstream assets are managed through four regional operating companies and 15 business units.

Our 2013 production was almost equally distributed among our operating companies. With our anticipated 2017 production growth, our production distribution will change. Our Asia Pacific regions' production is forecasted to increase by over 300,000 barrels per day driven by our Australian LNG projects.

North American production is expected to grow significantly through the deep water Gulf of Mexico additions and by increases in our Shale and tight production. Production growth beyond 2017 will be heavily influenced by the large Tengiz expansion projects. And this region should show considerable growth into 2018 to 2020 period.

Our strategies have been constant for over a decade. We're pursuing profitable growth in existing operating areas while building new global legacy positions. These strategies are all about creating value. Consistent execution on these strategies has yielded industry leading financial results with an unmatched growth profile through this decade.

Today, we'll be focusing on three themes, performance, portfolio, and growth. Let's begin with our 2013 performance.

In 2013, net production was approximately 2.6 million barrels per day. Our base operations delivered strong performance with a decline rate of less than 3%. And Shale and Tight production grew by more than 15%. Our lower than planned production growth for major capital projects was predominantly related to start up and ramp up delays at Angola LNG and, to a lesser extent, Usan in Nigeria. Overall, we achieved 98% of our guidance and are well positioned for continued growth.

Next I'll cover our 2017 production target. When we first announced our production target in 2010, we specifically tied the target to a price, $62 per barrel. A year later, we reaffirmed that target at $79 and absorbed the price impact on production.

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Since then oil prices have moved up significantly and Brent prices have averaged approximately $110 per barrel over the last three years. We are now updating our 2017 production target assuming a price of $110 a barrel. Yes, this higher price reduces our 2017 outlook by about 55,000 barrels per day. As you know the positive financial impact of higher prices overwhelms this volume loss.

Since our March 2013 analyst meeting, we decided to further reduce and defer investments in US natural gas due to market conditions. We're slowing our Marcellus drilling which reduces our production growth by 45,000 barrels per day. We made similar decisions in 2011 and 2012 when we deferred planned investment in the Piceance and Haynesville.

Recently we decided to accelerate the sale of some assets that we had planned to hold. The effect of the increased asset sales on our 2017 target is estimated at 35,000 barrels per day. We've also made some valuable additions to enhance our portfolio. The Delaware basin and Argentine assets have added 35,000 barrels per day to our 2017 forecast. Delays at Chuandongbei and the reminder of TCO Future Growth production have moved almost 50,000 barrels per day of growth beyond 2017.

The changes I've just covered would result in a forecast of 3.15 million barrels per day in 2017. Predicting production levels closer than a percent or two is difficult, as further reductions in US gas investments, greater asset sales or market conditions would impact production. For this reason, we have included a future uncertainty allowance of 50,000 barrels per day.

As John stated, our forecast is now 3.1 million barrels per day at $110 Brent price, a 20% increase in production relative to 2013. Now, I'll look at our performance in exploration, resource additions and reserves.

WoodMac data shows that Chevron is the leader in exploration resource replacement over the last 10 years, and in the top tier of our peer group in cost. Our assessment is we discovered 10 billion barrels of resource over this period. Our 10-year well exploration success rate of 56% is truly outstanding.

In 2013 we achieved a 59% success rate and added almost 1 billion barrels of resource. The map shows the location of the key 2013 exploration additions. We had great success in North America shale and tight resources and our strongest resource adds came from the Permian. We announced our success in the Duvernay in Canada, and also had good results in the Marcellus and Utica.

We expanded our long list of Australian discoveries with the Satyr and Kentish Knock wells and we drilled successful wells in the Gulf of Mexico, Thailand, Angola, the North Sea and in the Partition Zone. The barrels added in 2013 are in attractive fiscal regimes.

Next I'll cover resources and then reserves. Let's start with the long-term view, over five years we've produced almost 5 billion barrels, divested over 2 billion and all of that was offset by over 12 billion in unrisked resource additions from our resource factory of exploration, business development and organic growth through technology application. Our resource replenishment is strong over one, three and five years. 2013 was a particularly good year... with significant additions related to Kitimat, the Duvernay and the Delaware Basin.

Now, let's look at proved reserves. One year reserve replacement ratios can be variable as the reserves associated with major capital projects reaching FID is a significant factor. In 2013, we added over 800 million barrels of proved reserves for a replacement ratio of 85%. Over the last three years, Chevron has delivered a 123% reserve replacement and 100% over five years.

Let's now review our financial performance. In 2013, we delivered leading realizations among our competitors. We hold more than $1 a barrel advantage over our closest IOC competitor and an average of $10 over a large group of E&P and integrated companies. Our 70% oil weighted portfolio provides us a significant advantage.

Last year our upstream costs were $32.93 per barrel, approximately $1 higher than 2012 due to increased subsurface labor costs and higher DD&A. Our competitive upstream cost structure is notable since higher operating costs are generally associated with oil operations. Our ability to deliver leading realizations and a competitive cost structure has led to the highest earnings margins in the industry.

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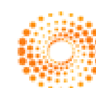

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Once again, our earnings per barrel performance leads the competition at nearly $23. That's over $5 a barrel above our nearest competitor and our 18th quarter with leading performance. We also outperformed the other large E&Ps and integrated companies by over $9 per barrel on average. We have had the highest ROCE in the upstream sector since 2011, and our 17.2% ROCE in 2013 is industry leading. In summary, we're delivering leading financial results as we grow our resources and production.

Now, let's take a closer look at the Chevron portfolio and how we manage it to drive this leading performance. As you can see in 2004, Chevron's earnings per barrel were at the competitive average. Through our consistent value focused investments in our base business and major capital projects, we're outpacing all of our peers by a large margin. These industry-leading results flow from our differentiated portfolio and our sound decision making. Managing and growing a portfolio requires a long-term view.

I'd like now to review the components that feed our future production and value growth. We begin with the resource opportunities. They come from exploration, acquisitions and our ability to increase recovery from our existing portfolio through technology. Success in these areas grows our overall resource base.

The consistency of our evaluation process is key to identify and develop the most economic opportunities. Initial reserves are generally recognized when we reach our final investment decision, reserves then move to production and revenue generation, and have completed their path through the resource factory. It is imperative that we continue to replenish our queue and feed the future with high value projects.

Next, I'll cover more on how we manage these resources to production... and let's start with our base business. Investing in our base assets is a key part of portfolio management. Through these efforts, our portfolio's natural decline rate of 14% has been reduced to 3%. We've had great success and are now revising our guidance from 4% to 3%. Our base investments including shale and tight, generally target lower risk developments and have a short cycle time to production. This investment category generally returns over 50%. As major capital projects moved into the base, additional high return investments become available.

Next, I'll cover how we manage our assets through their life cycle. Prioritization of the portfolio is done by evaluating discretionary funding. We look at the economic ranking of our opportunities and select the investments considering sub-surface and surface risks and of course economic reward.

Assets that don't presently compete for capital are either deferred, recycled or divested. These divestments occur early or late in the production lifecycle. Examples of these early life divestments include the joint development area between Nigeria and Sao Tome, Browse in Australia and our former Mariner and Bressay assets in the North Sea.

Examples of mature asset divestments include Cook Inlet in Alaska, our assets in the Netherlands and Norway, and our normal pruning in the Gulf of Mexico and the US midcontinent. Given the quality of our portfolio, these assets that don't compete for current funding are valuable to others. Our disciplined portfolio management has delivered peer leading results.

Our 2014 upstream C&E will deliver profitable growth through this decade. We have a budget of $35.8 billion in 2014 as we reach our peak spending on multiple projects. We expect a similar spending level through our three-year business plan window.

Our 2014 to 2016 C&E program is strategically divided into three key timeframes to deliver the right value mix. 10% of our C&E is dedicated for exploration to provide long-term opportunities that deliver barrels into the next decade. 60% goes to our major capital projects which are key for delivering mid to long-term growth. These investments provides step changes in our production and add high value barrels.

Some of the key 2014 project investments are Gorgon, Wheatstone, Jack/St. Malo and of course Big Foot. 30% of our investments go to our base business, delivering near-term value by mitigating decline and growing key assets such as the Permian. These capital investments create the foundation of our future production and financial performance.

Now, let's take a closer look into our US liquids portfolio. Chevron is the largest hydrocarbon liquids producer in the US. Most of our direct competitors have invested more heavily in domestic gas over the past 8 to 10 years, while we've maintained a focus on higher value liquids. We've slowed our

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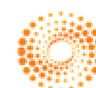

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gas investments over the last several years directly responding to market conditions. In the US we're not only the largest liquid producer but also have the greatest US earnings margin and are near the top on an absolute earnings basis as well.

Next, I'll dive a bit deeper into the US portfolio and review our Permian position. We've been in the Permian for many years. Back in 2011, we produced our 5 billionth barrels from the basin. Today we are the second largest producer. We have the largest undeveloped lease hold in the Permian and have over 10% of the leased acreage in the prolific Delaware sub-basin. In both the Midland and Delaware sub-basins, less than 50% of our acreage is developed.

Another key advantage to our acreage is that much of it has been in our portfolio for many years... and; therefore, has low royalty rates. In fact across the Permian, 60% of our acreage has no royalty and 30% has low royalty. This means that 90% of our acreage position has a significant competitive advantage. Our acreage position provides us an enviable opportunity for growth with over 17,000 oil and gas well prospects identified... and an additional exploration potential estimated at another 8,000 to 10,000 well locations.

The Permian basin is uniquely advantaged over other US continuous plays due to the multiple stacked plays. This is an acreage multiplier in terms of resource and development potential. For example, our Midland and Delaware leases have 1.5 million surface acres which is equal to over 7 million reservoir acres.

The stacked plays allow for efficient development and production for multiple zones. Multiple wells can be drilled from a single pad location and producing infrastructure can be shared. Compared to other basins, this lowers the risk and the cost per well. And the access to export infrastructure is also advantaged. We're optimizing our developments for value creation. We're not in a drill or drop position so we can focus on the resource and prioritize our developments.

According to WoodMac data, our development plan has the highest compound growth rate of the top five Permian producers over the next few years, and again, delivers long-term profitability. Our Midland basin growth is coming predominantly from the Wolfcamp play. On the Chevron acreage we have identified over 8,200 well prospects.

In 2013 we drilled 330 wells and we expect to drill a similar number in 2014. In the liquids-rich Delaware basin, we also hold significant undeveloped acreage with over 6,000 well prospects. We've seen production rates of over 1,200 barrels per day in the Delaware basin. And because of that we planned to increase our drilling rate.

In 2013, we drilled 135 wells and our target in 2014 is 175. To date, the wells we've drilled are a mixture of development, appraisal and some exploration. As we shift into a factory drilling mode, our plan is to continue to increase rig and well counts.

Looking out to 2020, we expect over 250,000 barrels a day of production coming from the Permian. Of this we forecast approximately 77% will be liquids. Once again, the Permian is a key legacy asset in our portfolio and we'll continue to be one of the leading producers in the basin.

Our growth in profitable shale and tight resource basins also extends outside of the US into the Canadian Duvernay and Argentine shales. As announced last year, we have strong performance with our exploration program in the Duvernay, with well rates up to 7.5 million cubic feet of gas and 1,300 barrels of condensate per day.

We're increasingly confident that our 325,000 net acres are well positioned in the sweet spot, an area rich with condensate. In Argentina, progress is being made to develop the Vaca Muerta shale. The shale is thick and laterally extensive. Initial well tests indicate this is a world class shale play and approximately 140 gross wells will be drilled in 2014.

Production is expected to grow to around 80,000 barrels per day by 2017. Half of which will be Chevron share. The Vaca Muerta shale also underlay's our existing El Trapial asset in Argentina where we are testing four exploration wells in 2014 to further assess the shale potential.

These plays all have exploration and development opportunities and will contribute valuable growth through the decade. We have a diverse gas portfolio in the US with significant development opportunities. However, the gas market is presently weak.

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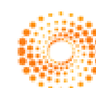

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We're positioned to deliver substantial gas growth when the conditions are right. Our acreage has low holding cost. So deferring investment is the right decision. We can adjust our plan as the market changes as we don't have to drill to maintain acreage.

We've identified over 5,000 gas well prospects that don't presently compete for capital. We'll begin developing this acreage when the market conditions provide an attractive economic opportunity.

Our leading upstream financial performance and our industry leading project queue are a product of our strategy, execution and value focus. All of our investments and assets must compete for capital. Our anticipated capital allocation over the next three years is shown on the right, with 90% of the C&E going to oil linked assets. We'll continue to strategically invest some funds in profitable gas developments.

Less than 2% of our C&E over the next three years is dedicated to US gas. And these investments have a drilling carry. Our US oil investments are advantaged with limited exposure to pipeline constraints.

Jay, will now cover our upstream growth.

Jay Johnson - *Chevron Corporation - SVP Upstream*

Thank you, George. Good morning everyone. Let me start by taking a look at our worldwide view of key assets that will drive our growth to 2017 and beyond. We have more than 70 projects each with a Chevron share of over $250 million scheduled to start up by the end of this decade.

In the near-term, we're seeing growth from major capital projects that have recently started up and are increasing production. We also have numerous projects expected to start up between this year and 2016, most notably developments in the Gulf of Mexico and our two LNG projects in Australia.

By 2020, we expect additional growth from projects in the Gulf of Mexico, West Africa, and of course, Kazakhstan. Shale and tight resources are also major contributors to our growth as they account for 7% of our current production and are expected to grow to 15% by 2020.

Let's take a closer look at the status of some of these projects beginning with our project ramp ups. Angola LNG, Usan in Nigeria, and Papa-Terra in Brazil are already producing and are expected to grow production in 2014 and beyond.

ALNG is currently running around 50% capacity and has shipped three LNG and two LPG cargoes this year. The variable composition of the plant's associated gas supply has impacted its initial performance. We expect the plants to remain at about 50% capacity until permanent modifications can be completed in 2015. This will allow ALNG to consistently produce at its full capacity of approximately 180,000 barrels equivalent per day.

At Usan, development drilling is expected to continue into 2018. Satellite developments are being reviewed as tiebacks to the FPSO, as future growth opportunities. Papa-Terra achieved first oil in 2013. The second well on the FPSO is already on production and the ramp up is expected to continue through 2016. First oil from the Papa-Terra tension leg platform is expected by the end of the third quarter this year.

Now, let's continue with some of our significant deep water projects. Our performance on Jack/St. Malo continues to demonstrate our strong project execution capabilities. In 2013, the hull sailed from South Korea, the top side modules were installed and the platform was moored in its final position in the Gulf of Mexico. With over 99% of the construction, 75% of the subsea installation and 80% of the hookup and commissioning completed, the project remains on budget and schedule for our late 2014 start-up.

Big Foot is another project with significant progress in 2013. The hull arrived in Texas for integration and all top side modules were installed. We've finished drilling all the wells for the initial start-up. This year we expect the platform rig will be installed, the hull will be moored on location and the commissioning campaign will begin. We expect to start production at Big Foot in mid-2015.

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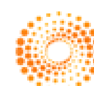

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Another important project in the Gulf of Mexico is Tubular Bells. The construction of the spar and topsides has significantly advanced, and they are now installed at their offshore location and start up is expected before year-end. Production from these projects reinforces our position as the largest liquids producer in the US and a major producer in the Gulf of Mexico.

Now, let's turn to our LNG projects. Gorgon continues to make steady progress towards first LNG with construction now over 78% complete. Today, 20 of 21 modules needed to produce LNG have been delivered to Barrow Island. While not on the critical path, the 21st module is expected to be delivered in June.

All Train II modules and most Train III modules are scheduled to ship before year-end. Train II and then Train III are scheduled to come on stream at six-month intervals following Train I. The domestic gas pipeline and all offshore pipe-lays are complete. The LNG jetty and the first LNG tank are on schedule for completion this year.

By year-end, 18 wells are expected to be completed... each designed to deliver over 200 million cubic feet of gas per day. Only 16 of these high volume wells are initially in needed to meet plant requirements. We're expecting a mid-2015 start up.

I'll now cover the Wheatstone progress. This project is now around 30% complete. The direct development drilling campaign commenced in January and the overall progress on the Wheatstone offshore platform is 50%, with the steel gravity structure scheduled for installation later this year and the topsides in the first half of next year.

The Wharf can now accept marine shipments. The completion of the first LNG tank foundation and delivery of the first process module are also planned for this year. The takeaway is that Wheatstone LNG remains on track.

Now, let's talk about TCO. Tengiz has significant expansion potential. We have a trio of projects to optimize existing production, expand processing capacity by an estimated 300,000 barrels per day and roughly double the Caspian pipeline export capacity. We expect the Caspian pipeline to realize incremental capacity in stages before ultimately reaching 1.4 million barrels per day in 2016.

Around 100,000 barrels per day is anticipated to be available this month. In late 2013, alignment was reached between the Kazakh government and TCO for the expansion. Early funding has enabled orders to be placed for long-lead equipment as well as allowing construction to commence on a nearby port that enables delivery of pre-fabricated modules. These are major steps towards reaching FID later this year. Together these projects are designed to grow the plant and field capacity beyond 1 million barrels per day.

Looking further out, I'd like to talk about four projects in our post 2017 deepwater project queue. Stampede, entered FEED in 2013 and has completed appraisal well drilling. The selected concept is a tension leg platform delivering an approximate capacity of 80,000 barrels of oil per day. We're currently reevaluating Rosebank and Mad Dog II to generate scenarios with viable economics. With large potentially recoverable resources, optimized develop plans could deliver valuable barrels from each of these assets. The Buckskin/Moccasin hub development concept is still in the early planning phases with an ongoing appraisal program.

Now, leaving the deep water, let's look at two major projects in Canada. The Hebron project is advancing with the gravity based structure under construction in Canada and fabrication of the topsides underway in Korea. The project is expected to start up in late 2017.

The Kitimat LNG project will be an important contributor to future LNG market supply. Kitimat LNG is continuing to progress and maintain its first mover advantage. A critical milestone in a path to a final investment decision is the placement of 60% to 70% of the production under firm gas sales commitments.

Now, let's look at two of our longer term expansion opportunities. The Wafra first Eocene large scale steamflood pilot continues to progress and has achieved oil recovery rates greater than 50%. The recovery factor is at the high end of our expectations and supports a full field development with FEED anticipated in 2015. Given the result of the first pilot, another pilot is being planned for the deeper second Eocene. Initial well patterns are being drilled this year.

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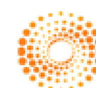

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Our largest LNG facility Gorgon, has brownfield expansion potential with over 11 TCF of gas available. The expansion targets gas in the Chandon and Geryon fields. As with other LNG projects around the globe, Gorgon expansion will require LNG sales contracts to underpin an economic development. These projects all contribute to an enviable portfolio that strengthens our position.

Today our portfolio includes about 50% or 1.3 million barrels per day of production from legacy assets which we define as having flat to low production declines over a decade or longer. By 2020, production from our legacy assets should reach more than 60% with new production from our LNG projects, expansion at Tengiz, and our shale and tight resources.

The significance of these assets is that they deliver reliable long-term production. Even our shale and tight plays have ratable spend profiles that sustain long-term growth. This growth in our legacy assets increases production and investment certainty.

This year we plan to drill more than 75 exploration and appraisal wells worldwide. Our focus areas are key as they leverage existing business and acreage positions to maintain and grow production. North America, the Gulf of Mexico, West Africa and Australia are areas with proven exploration success.

Our test areas provide new basin opportunities to expand resource capture. As an example, the Kurdistan Region of Iraq has demonstrated significant potential with multiple horizons of oil. Our initial two exploration wells in Rovi and Sarta have encouraging results. More wells are planned this year to further evaluate the potential. We define impact wells as having over 100 million barrels of potential and we plan to drill 12 impact wells this year. We have a diverse exploration queue that includes conventional and shale and tight opportunities.

With our portfolio of global deep water projects, shale and tight resources, LNG projects and multiple expansion opportunities from important legacy assets such as Tangiz and Wafra, we not only have growth potential through this decade but well into the future to continue to deliver high value barrels.

Now George will come back to make some closing comments. Thank you.

George Kirkland - *Chevron Corporation - Vice Chairman and EVP*

Thanks, Jay. Like earnings per barrel, our cash margins lead the industry. In 2013, Chevron's upstream cash margins were approximately $38 per barrel, very similar to 2012. Competitor data is not available for 2013, however we expect to lead on this metric... and to lead by a large margin. Consistent competitive data became available in 2009 and as you can see we've not only been leading but we have differentiated our performance relative to our peers.

This position on cash generation is frankly what has allowed us to invest for the future and to concurrently make strong shareholder distributions. Our forecast is even better. We expect that the cash generation of the new investments will be accretive to the portfolio.

We firmly believe our production and financial growth position is the strongest among any of our competitors. With our major capital projects coming online, we forecast continued growth to the end of the decade. Projects like Gorgon, Wheatstone, Jack/St. Malo, Big Foot and others are expected to add over 800,000 barrels per day in 2017. Beyond 2017, projects such as the TCO expansion, Hebron and growth from the Permian and other shale and tight basins add more new production.

I would like to close by reemphasizing, that our performance, portfolio and growth story continue long-term. In summary, we continue to deliver top earnings and cash margin performance by maintaining our value driven investment strategy. With a robust opportunity queue in our growing legacy position, I'm confident that we will continue to differentiate ourselves as the industry leader in the upstream business.

With that, I would like to thank you for your attention. And now, John will come up for a few closing remarks and then Q&A.

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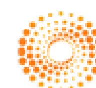

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John Watson - *Chevron Corporation - Chairman, CEO*

Okay. Thank you, George. That concludes our prepared presentations, just to recap what I'd said at the outset, we feel the business environment will be very good for our business and we're well positioned to prosper through the end of the decade and beyond. Our strategies are right and our portfolio continues to deliver excellent results and we're poised to deliver substantial volumetric and financial growth. To ensure delivery of value we're focused on strong execution of our base business and major capital projects.

Now, Mike and Pat will join me up here on the stage, and we'll start taking some questions.

QUESTIONS AND ANSWERS

Arjun Murti - *Goldman Sachs - Analyst*

(Inaudible - microphone inaccessible) Sorry, it's Arjun Murti with Goldman. John, my question was on acquisitions related to shale. You've highlighted a sort of a lot of optimism in the Permian, you got the Duvernay, and Vaca Muerta, you've been very disciplined over the years. But some of the valuations say in the Bakken for example do seem to have come off the euphoric highs from a few years ago. Can you provide me the updated thoughts in how you're thinking about the acquisition environment?

John Watson - *Chevron Corporation - Chairman, CEO*

Sure. Well, George made a comment that we need to continuously replenish the resource pool. And so, we've done that over time. And we've done it through several means, we do it for exploration, discovered resource and acquisitions from time to time. Last year was a big year, really in more of the discovered resource and some of these tight resources because we thought that the opportunity was right. Over the years, we've watched the Bakken and frankly we'd like to have a position there, but the valuations have been high and we just couldn't make the economics work. So we've stayed away.

I think we have a good portfolio right now, we've got plenty of growth ahead of us in the Permian. Arjun, I can't rule out opportunities that might come forward, but we feel good about what we've got right now. And so, we're not -- we're not looking. We've got a pretty full pot right now. So we're not -- we're not looking.

Yes. Thank you. Please do introduce yourself. I can't always see everybody because of the light. Thank you.

Doug Terreson - *International Strategy & Investment - Analyst*

Doug Terreson, ISI. John, Chevron's pretty constructive on oil prices and more so than it's peers during the past decade. And I think that you reiterated that view point today. And on this point, on slides six to eight you indicated rising marginal cost of crude oil due to higher cost and less attractive terms, I think you've talked about it too, which implies changes to industry spending near the $80 Brent threshold, if I read the chart correctly.

So my question is would you agree that $80 Brent maybe a new threshold for global spending? I know it's just an approximation, or did I mis-read that chart. And then second, how does Chevron manage for greater value creation environment that you envision? Meaning, how do you manage the balance between growth and return given what appear to be a more challenging industry condition going forward?

John Watson - *Chevron Corporation - Chairman, CEO*

Sure. Well, couple thoughts. First, one of the points on that chart is there's still a lot of resource that can be developed for less than $100 and less than $80 barrel. And there's a whole range of operating environments out there, deep water, certainly some of the OPEC nations have low cost

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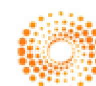

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resources. What the chart is really meant to convey is that at the margin, as we go into deeper water and as we've seen these rising costs, there comes a point where some projects just won't be able to compete for capital, certainly for us and presumably for others.

We've seen more projects in those asset classes fall over or companies have announced delays. So I don't know that there's a hard threshold because fiscal terms vary considerably whether it's deep water or in other areas. So I wouldn't want to put a hard and fast rule. But I -- but we certainly know of projects that at $100 a barrel aren't economic -- aren't economic any longer.

In terms of how we take a look at our priorities during this period, one thing I commented on is we do our economics -- really probabilistic economics. So we take a look at cost. We've always evaluated our opportunities under our range of different price and cost and production scenarios.

So we actually put together what we term in our business S-curves and really have a view of the upside and the downside of projects. And that won't change now. And if we start to see a better environment on the cost side of things, that will be reflected in how we look at our projects going forward.

I'll let George talk -- if he has got any specific thoughts one some of the trends that we're seeing now in cost and his thoughts.

George Kirkland - *Chevron Corporation - Vice Chairman and EVP*

Well, on the cost side it is different in different areas. We have seen some costs come down on the onshore drilling cost, land rigs have gone down. I think we're in a period, maybe we're going to see a flattening or maybe even a little bit down on some of the deep water rigs. We're seeing more deep water rigs come out of shipyards. So maybe we're at a point where we're going to be at a plateau on that. I will tell you costs are still very high in the subsea arena for hookup, the hookup portion of it, the manifolds, all that piece is high and it is impacting some of the projects -- some of the deep water projects.

There is a more variability than there was in probably the past 10 years. Then everything seemed to move up. We are seeing some differences in different segments.

John Watson - *Chevron Corporation - Chairman, CEO*

Ed.

Ed Westlake - *Credit Suisse - Analyst*

Thanks for the -- Ed Westlake, Credit Suisse. Thanks for the CapEx outlook a few extra years. It helps. And I have a question I guess around the contingencies, what's the worst case CapEx scenario that you could think about if some of the Aussie dollar changes or projects perhaps do not progress as smoothly as you think?

John Watson - *Chevron Corporation - Chairman, CEO*

I don't know what the worst case is. We've put a -- if you noticed in some of our outlook for '15 and '16, we put a little bit of shading up there because there can be some variability. But look we have a pretty good understanding of what costs are likely to be for Gorgon and Wheatstone at this point. We've done a lot of contracting obviously in Gorgon where we're at the final stages.

So we have a pretty good idea of what cost will be. There can be variability in exchange rates. But I'll tell you, we're managing capital pretty closely right now. We're -- we've put a budget of $40 billion, and we're watching that very closely.

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So there will always be some ups and downs. That's why we put a little bit of a shading around that. But we can see -- we can see top line cash that we need to generate in order to continue to pay and grow the dividend as the pattern of earnings and cash flow permit. So we're fairly committed to it.

Ed Westlake - *Credit Suisse - Analyst*

And then specifically in the Permian, you've got up 50,000 barrels a day of production growth. If an E&P company have 1.5 million acreage in the Permian, they would probably put something up somewhat higher. Can you talk about your confidence in -- or maybe why that trajectory is the shape it is and maybe the constraints you see that others don't. And maybe talk to your ability to execute in shale.

John Watson - *Chevron Corporation - Chairman, CEO*

I know George is dying to answer that question. So I'm going to let George answer that one.

George Kirkland - *Chevron Corporation - Vice Chairman and EVP*

Well, there's several things there. First off, for us we are in a different position than almost all our competitors on the lease. Most of them have tied up their leases in the recent past. They have lease positions that have royalties in the 20% to 25%. They have drill and drops. So they don't have a lot of choices, they got to move.

We like being a little more ratable and find the sweetest spots to drill first and use the leverage of those first investments that are the strongest, for in the future the infrastructure they create, they will create more value and more of these opportunities in the future that aren't quite as good, not maybe in quite as good a spot on the reservoir side; they will still be good economics because we're leveraging off our earlier investments.

You can't do that if you just go mow through it. You just can't. We don't have to do that. We're looking at -- we're looking at a large growth over this period. My number is something like 130,000 barrels of growth, that's big. That in effect is equal to a couple of major capital projects of kind of average size. So it puts us in a good position that we got a nice, ratable, in effect major capital project. That's ratable capital, that's also ratable on barrels each year. So it's a little bit smoother.

For me I'd like to get to that point in the Permian and I'd like to get to that point in the Duvernay. It would be very nice to have a couple of assets like that, that you can be ratable, ratable growth, ratable capital, and know those barrels are coming and not be quite as dependant on being one quarter earlier, one quarter later, six months later on a major capital project. So big advantage to have couple of those in our portfolio.

John Watson - *Chevron Corporation - Chairman, CEO*

Okay. Let's see, I'll take one. Paul, I guess here.

Paul Cheng - *Barclays Capital - Analyst*

Thank you, John. Paul Cheng, Barclays. If I could, two questions. John, I think for the last 12 months you started talking more about the high cost and need for some projects being dropped. In the past you've talked about organizational capability limit and the supply chain. If we look at today, which is actually a bigger constraint factor for you to take on projects?

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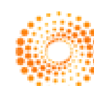

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John Watson - *Chevron Corporation - Chairman, CEO*

All right. I think the two go together - part of the reason we've seen cost rise is because of the supply chain is tight. I showed you that chart to indicate it that the backlog for contractors is generally high. George indicated, there are some areas where maybe -- it may see some loosening in the market. But fundamentally, it's a strong market for oil field services and equipment. And we don't -- we don't see that -- we don't see that changing.

As far as our own people go, we've been very successful at adding capability to our organization over time. About half the hires in the technical ranks that we've done over the last five years has been experienced hires. And we certainly continue to hire on college campuses. But with the boom we've seen over the last decade, we've gone outside of the company. We brought in some great professionals.

Right now we think we're able to attract the people that we need. And we've instituted as I referenced in my comments, more oversight in the contractor community, and QA/QC and planning and a number of other areas to be sure that contractors are executing as we hope they will. But we feel we've got the people to do the work. There's still the tightness in the supply chain and that's reflected in prices.

Paul Cheng - *Barclays Capital - Analyst*

The second question, probably for Pat. In the chart you show, you're targeting by 2017 cash flow from operation over $50 billion and in 2013 it's about 35, so that's an increase of over 15. George have talked about the average cash margin for the upstream is $38, you're targeting 500,000 barrels a day increase in your production so that's about seven billion. Can you help us bridge the gap with the other eight billion? Thank you.

John Watson - *Chevron Corporation - Chairman, CEO*

I think there's some other arithmetic there, Pat?

Pat Yarrington - *Chevron Corporation - VP, CFO*

I think the component that you're missing perhaps is the fact that we said that the overall portfolio in 2017 would be stronger than the overall portfolio today. So it's not just on the increment, it's on the full portfolio.

So in other words it's the 3.1 million barrels a day at a cash margin that is higher than today's cash margin of $38 a barrel. That makes up the difference. We also have contributions coming in in 2017 from the Pascagoula base oil plant as well as CPChem. But the vast majority of that increment is of course related to upstream.

John Watson - *Chevron Corporation - Chairman, CEO*

Try one back there.

(Inaudible -- microphone inaccessible)

Roger Read - *Wells Fargo - Analyst*

That's all right. Roger Read, Wells Fargo. Thanks.

John Watson - *Chevron Corporation - Chairman, CEO*

Hi, Roger.

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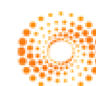

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Roger Read - *Wells Fargo - Analyst*

Maybe just a follow-up on the cash opex side, if we look at one of the biggest projects coming on - Gorgon, can you give us some idea of how we should think about cash cost with that? Obviously you would expect them to expand given those numbers.

And in the second part, given the troubles with Angola LNG in terms of getting it up to speed, and I recognize the gas stream not as consistent maybe as what you expected at Gorgon. Can you give us an idea of the testing you've done so far that gives you confidence that once you're up and running on Gorgon, the startup should be relatively smooth or as smooth as it can be hoped for?

John Watson - *Chevron Corporation - Chairman, CEO*

Yes. I don't know that we'll give you a precise forecast for opex for Gorgon. But why don't I let Jay talked to you about both those subjects.

Jay Johnson - *Chevron Corporation - SVP Upstream*

So in terms of first the reliability. ALNG versus Gorgon, as you pointed out, they're very different projects. Gorgon is using dedicated gas for the field, both Io-Janz and Gorgon to supply the field.

The issues with ALNG have been on the gas conditioning that go into the LNG facility, the LNG facility itself is performing to expectations so we're quite comfortable in terms of the prediction of performance for Gorgon.

At ALNG what we're doing now is evaluating, adding additional separation capacity for liquids on the frontend as well as additional dehydration capacity. What we'll do is take a turnaround to install that additional capacity and then that's what we'll allow the plant to come to full rate and speed.

In terms of Gorgon's cash generation capability, it is a --

John Watson - *Chevron Corporation - Chairman, CEO*

Did you say cash opex?

Roger Read - *Wells Fargo - Analyst*

Well, whichever way to think.

John Watson - *Chevron Corporation - Chairman, CEO*

Oh, okay.

Jay Johnson - *Chevron Corporation - SVP Upstream*

So I would think about in terms of its ability to generate cash in terms of the -- first of all you're looking at largely oil linked contracts that generate very robust pricing for the project. A very large scale in terms of the production and the cost per barrel, so this is an asset that will generate, I would say, robust cash generation for decades and really serves as a great source of cash generation for us going forward.

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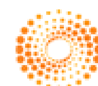

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George Kirkland - *Chevron Corporation - Vice Chairman and EVP*

Maybe just add a comment to help you on that, not specifically point out the Gorgon, but Gorgon is a huge part of the cash move for us going forward. And the chart that we showed probably near the very end in the upstream segment where we showed the cash margins of the total portfolio going up, well, the existing portfolio doesn't change that much.

The impact of the improvement, the accretive nature of it is really all driven by these new additions. These new additions are cash accretive in total to the whole portfolio.

John Watson - *Chevron Corporation - Chairman, CEO*

Very good. Yes, Doug.

Doug Leggate - *Bank of America Merrill Lynch - Analyst*

Thanks, John. Doug Leggate from Bank of America. Maybe just questions for Pat on the balance sheet. I know it's -- we're talking long term time frame here but you have said several times that your capital expenditure in 2013 was probably your peak. But is there a time frame associated with it?

Because as we look forward, as your cash flow grows, are we then suggesting that Chevron is going to move into harvest mode at some point while those beyond '17 does the capex continue to rachet higher?

John Watson - *Chevron Corporation - Chairman, CEO*

Well I think I was the one that used the term relative peak, so maybe I'll try that. All I was trying to get across is that as you go down the road five to 10 years we'll be a bigger company. I don't know what the cost in goods and services, I don't know what the price environment is going to be, so to say that something is a peak forever, just didn't seem like the prudent thing to say.

2013 is a peak for capital spend as far as we planned. And going forward, a harvest mode implies liquidation or something of that sort, but we have these big projects coming on. Gorgon and Wheatstone, our combined spend on these two projects is over $40 billion. We've got nothing like that. We've got some great projects in our queue but we've got nothing like that where we're going to spend $40 billion within a six, seven-year period of time.

Doug Leggate - *Bank of America Merrill Lynch - Analyst*

I guess a related question then is -- and this is my follow-up. If I look at the portfolio capital intensity, it's still -- George made a great point about your unit cash margins, but you're spending the same as a company 40% bigger than you and delivering not dissimilar growth, do you expect that that changes -- I guess that's what you mean by harvest mode, is there a point where Chevron starts to throw off free cash as opposed to cash burn that Pat talks about on the balance sheet (inaudible).

John Watson - *Chevron Corporation - Chairman, CEO*

Let's talk about that. Let's talk about that. I think you're referring to our largest competitor who spoke the other day and they're a terrific company. My understanding based on what was presented is they produced 4.2 million barrels a day in 2013. And in 2017 they'll produce 4.3 million barrels a day, so that's pretty flat.

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What we're saying is that we're going from 2.6 million barrels a day to 3.1 million barrels a day. That's 500,000 barrels a day of increase. And that's a fairly significant difference going forward.

I think it's important -- if you look at a couple of charts where we showed decline curves, you can invest at low rate and decline at 3% or 4% a year until you run out of base business projects.

But to realize growth, either to get you up to even, or get you to 3% growth or 4% or 5% growth on top of that, it takes a large increment of capital. And I think that's what you're seeing right now for us. And so that's why you're seeing spending that's comparable but I think there will be different outcomes from that spend.

Yes.

Robert Kessler - *Tudor, Pickering, Holt & Co - Analyst*

Thanks, John. It's Robert Kessler, Tudor, Pickering. I like to follow-up on your just most recent comment about base versus growth capex and maybe drill down into Tengiz specifically. When I look at the three projects there, two of them look like maintenance projects to me the way they're phrased. As you look up to get to that million barrel a day production level, how much of the overall spend is what you would call maintenance type spending that persists beyond reaching that million barrel a day threshold and how much is the growth capex?

John Watson - *Chevron Corporation - Chairman, CEO*

Yes. Well we've got two projects and I'll let Jay describe them. But there's -- it's important to distinguish between the two and I'll let Jay do that.

Jay Johnson - *Chevron Corporation - SVP Upstream*

Yes. Thank you. There are, as John said, two projects that are going to be conducted at the same time in Tengiz. The first is called Wellhead Pressure Management Project. I think this is the one you maybe thinking of about maintenance. It's really not.

What it simply is, is a boost to take all of the existing field production and compress the gas and pump the oil up to the high pressure that the plants require, effectively lowering the back pressure on the well which allows us to get more production out of an existing well-base. The alternative would be you have to drill a lot more wells. So, that actually is contributing to that decline, arresting the decline out of the existing wells.

The second project is Future Growth Project. This builds on the pilot work we did with sour gas injection, that's been so successful. What this does is actually increase our production capacity an additional 250,000 to 300,000 barrels a day and it allows all the gas from that to be re-injected back into the platform for miscible flooding and pressure maintenance.

So think of one project that it's really a base business as George was talking about that extends our base and allows us to minimize the amount of drilling we have to do, the second one builds on top of that to add the incremental capacity. The third project was expansion of the export pipeline which is pretty evident.

Robert Kessler - *Tudor, Pickering, Holt & Co - Analyst*

And how much capex for each of these?

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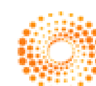

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Jay Johnson - *Chevron Corporation - SVP Upstream*

We haven't released capex numbers for that. We expect to take FID later this year and that's normally the time when we would put some numbers out around those.

Robert Kessler - *Tudor, Pickering, Holt & Co - Analyst*

Thanks. One other, for me, if I could real quick, John.

John Watson - *Chevron Corporation - Chairman, CEO*

We're limiting to two, okay. We'll come back though.

Robert Kessler - *Tudor, Pickering, Holt & Co - Analyst*

10 billion of --

John Watson - *Chevron Corporation - Chairman, CEO*

I guess that's a follow-up, okay. Go ahead.

Robert Kessler - *Tudor, Pickering, Holt & Co - Analyst*

10 billion of asset sales, what's the upside to that? And you referenced it being upstream-weighted, what happened in the midstream incremental divestment potential there?

John Watson - *Chevron Corporation - Chairman, CEO*

Yes. 10 billion is a number that we've got for the next three years, most of the divestments we've had in the recent past, Mike showed you some numbers had been as we've been really sizing our downstream and some of our midstream assets the way we want them. We're nearing the end of that in the downstream.

In the midstream, we're continuing to monetize pipelines, power plants, things like that, that really aren't integral to flow assurance for our upstream and downstream businesses. So we have some, think of them as merchant or third party activity going on, and we think given the valuations that our there, we can get more value.

We're still going to be in the pipeline business. We're still going to be in the power business, in fact in a very big way with self-generated power in our business. We have pipelines from Jack/St. Malo, the Caspian pipeline and others, so we'll still be in the midstream business but it'll be more clearly associated with the activities that we have under way.

You should think of 80% plus of the asset sales that we talked about would be in the upstream end of the business.

Over there, Evan.

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Evan Calio - *Morgan Stanley - Analyst*

Thanks. Evan Calio of Morgan Stanley. John, you've been through a few cycles. In the last cycle, peak and plateau were really two theories on oil productive capacity not majors collective capex. And while different, I think both are constructive on future oil price as well as future returns.

So really in this plateau to peak capex world and in a world where we're seeing increasing resource potential whether that be other countries opening, other unconventional assets, I mean, do you expect or has your upstream threshold for projects increased, has your geopolitical risk decreased? And I know that Rosebank, Mad Dog, they're being re-examined, Vietnam, that you chose not to enter as some examples.

As your threshold changes, is there something that could be foreboding for improved returns in a flat commodity price?

John Watson - *Chevron Corporation - Chairman, CEO*

Our economic criteria haven't changed over time. The conditions that go into the economic valuations obviously do change. Part of what you were saying of the offset was more geared toward our view of markets and I guess the way I look at it is over the last decade we've seen 750 million people moving up to middle class and that's resulted in demand growth.

So despite the short increase in prices, we continue to see demand growth. And we continue to see more people that will be entering the middle class around the world. So that's why I said we're fairly bullish on increasing demand for energy in general. And if you're bullish on the increasing demand for energy, then decline curves take over and that's going to take a significant amount of investment for our business.

So there will be periods where you'll have an ebb and flow in terms of the investment environment pricing, we've been a flat period for the last few years. But I think what's behind all of that is this underlying demand. And you'll have an imbalance between cost and prices for short periods of time, you can have that and when you do markets work. We pull back on projects that aren't economic, presumably others in the industry do the same thing and you get a rebalancing in cost.

So it happens through either cost or price if we're shrewd about making our investment decisions.

I'm not sure if I answered your question. Yes.

Faisal Khan - *Citigroup - Analyst*

Thanks. Faisal Khan with Citigroup. You guys have had delays or cost overruns for a number of projects - EGTL, Angola LNG, Chuandongbei, Big Foot and Gorgon. I guess what I want to understand is what were the lessons learned from these delays and cost overruns and how do you ensure that maybe you won't see these issues take place in the future?

John Watson - *Chevron Corporation - Chairman, CEO*

Yes. I guess we'll start with the basics. We didn't get to a leading portfolio with the $5 barrel average margin over all of our competitors if we weren't pretty good at selecting and executing projects. We're living in challenging times for executing major capital projects and I went through some of those earlier.

Maybe what I can do is again, Jay is very knowledgeable about projects. He'll then talk just a little about some of the things we're doing in our project management systems to talk about addressing some of the risks that you described.

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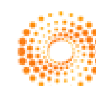

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Jay Johnson - *Chevron Corporation - SVP Upstream*

Thank you. I think it's important first of all to think about projects both before they start execution when you can see delays. FGP would be an example where we thought it would get to FID a little bit quicker.

These we pace at that speed that they're going to take to get them right. We're not in a hurry. We're not going to drive them prematurely. Many times it's driven by the commercial and political environments more than they are, the technical issues that are associated with these large projects.

Projects like you mentioned that are in execution, we tend to have a better handle on the schedule on the pace of these, although you can always get unexpected events arising. In the case of Gorgon, we had some issues with the logistics of trying to get all that material and equipment onto the island. Those then were recognized as an issue and were addressed. We're not having those issues any longer.

We had some exchange rates that started to going against us in the Gorgon project with a lot of Australian dollar spend. That's now moving back towards center. But what we're trying to do is as John pointed out earlier, we try and characterize the uncertainties that we face with all of these major projects and build the execution plan such that we can adapt and incorporate these changes and still be able to deliver an economic project at the end.

And I think as you see with Gorgon we're now 78% complete. All the one module are on the Island for the startup next year for the LNG, we are seeing good success as we move forward with projects like this.

We routinely take the lessons learned. For example, Tengiz SGP, what we learned in executing that major project was directly transmitted, for example, to Gorgon team as they looked at a major land based project. And so one of the issues you saw was a shift from stick-build construction to modular design.

And a project that's built largely through pre-fabricated modules. This also came from the deep water where we have a pretty good history of delivering these projects, and that technology then was adapted for onshore service, so it's giving us better ratability that is now being applied for FGP and WPMP in turn.

So as we do these various projects around the world, the lessons learned are routinely captured and then they're fed into the other projects as we move forward and we're seeing the results from that effort.

John Watson - *Chevron Corporation - Chairman, CEO*

One thing I might -- maybe George will comment on is the nature of our contracts with the contracting community and how those have changed over time.

George Kirkland - *Chevron Corporation - Vice Chairman and EVP*

Just you go back 10, 15 years ago, projects that we did on scale, the large ones, you could do those with a lump sum bid to a contractor. The projects we're doing today, there is not enough financial capability in those companies.

They make a mistake they're out of business or they put so much cost and, in effect, insurance into a lump sum bid that it will just kill the economics of it. So we have had to look at different ways to deal with our contractors. We tend to break the contracts down into smaller chunks. We have become in many ways more of the general contractor that has forced us to have more people that are capable, to put all the pieces together.

I think we've been very successful in doing that. But it was a challenge and it was something we had to recognize right up front. You can't expect a contractor to go do a project where his cost of the project is two or three times the enterprise value.

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John Watson - *Chevron Corporation - Chairman, CEO*

And so we've become more intrusive. One of the lessons learned on these capital projects is you can't just sign a contract and expect the contractor to execute given the stakes in some of these projects. So we've been much more intrusive, larger owners teams, and different tools in our project managers handbook, if you will that's the device used by our project professionals to be sure that we do capture all the lessons learned and that we are on top of everything the contractors do.

In the old days, if you signed a lump sum, you let them go, and when you came back and they were done. It doesn't work that way anymore.

Faisal Khan - *Citigroup - Analyst*

My second question was, it's a short question -- is that you guys lowered your decline rate to 3% on the base business. Does that not show up in the production outlook? It didn't show up in that bar chart you guys laid out.

George Kirkland - *Chevron Corporation - Vice Chairman and EVP*

It's not shown up in there that we have just now -- with now three years or four years of lower than our 4% decline rate. We have made a decision to -- we see a path forward on the 3%. I would tell you it may even get better after we get the Gorgon and at Wheatstones on and have another set of assets that frankly have flat production.

Over that period of time, it could make a difference in our production. We have not built anything in there recognizing that at this point. Most of our business plans have actually moved the last couple of years to a lower decline rate from the business units.

So our forecast once again is based on our business plans that we work with our business units and we're seeing they're decline rates going forward being less.

John Watson - *Chevron Corporation - Chairman, CEO*

I want to take one question from online. We have a lot of people on the webcast and maybe I'll give it to Pat. How do you determine if there's a better growing investing in a project compared to returning cash to shareholders via repurchasing? Because I know some of you have asked that question so I thought I would give her a shot.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes. I mean obviously I laid out our cash use priorities, start with the dividend and then move to the re-investment in the business opportunity. We have a 26-year dividend growth history. We obviously want to retain that. That's very important to us.

But we also want to be able to sustain the growth in the value of the enterprise. And we do that by virtue of the quality of the projects queue that we have. And so we're always constantly balancing the near term returns for the shareholder via dividends and share repurchases against the longer term value creation opportunity that we've got. That in fact sustain the ability for the firm to continue to grow dividend in years on out.

So we constantly play against those tensions. And I don't think that you can say that there's a static view at any given point in time. We always look at it relative to the facts and circumstances that we have at hand, having once taken the dividend and the growth pattern of the dividends off the plate.

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John Watson - *Chevron Corporation - Chairman, CEO*

Okay. Let's try one right in front.

Paul Mecray - *Tower Bridge Advisors - Analyst*

Paul Mecray from Tower Bridge. A strategy question. A number of somewhat cash strapped E&P companies have made major natural gas discoveries and they're moving downstream into LNG. Were your partner, Apache, for example, to need to monetize its investment, 50% I believe at Kitimat, it came to you and say we're going to be selling it down, would you step up to the plate?

John Watson - *Chevron Corporation - Chairman, CEO*

Apache is a publicly traded company and I probably shouldn't speak for them. We actually have a good partner in Apache for the Kitimat project. And I think it's premature to speculate on either what -- and they've talked about what their plans are. Our plans, we've got a 50% interest and I wouldn't see our percentage increasing from there.

Okay. In the back, yes.

Asit Sen - *Cowen & Company - Analyst*

Asit Sen from Cowen & Company. Two questions, John. First, is Kitimat in the 2015, '16 long term capex trajectory? It looks like it's not mentioned on the chart here.

John Watson - *Chevron Corporation - Chairman, CEO*

George, do you want to talk a little bit about or, Jay, do you want to talk a little bit about where the spend is?

George Kirkland - *Chevron Corporation - Vice Chairman and EVP*

Kitimat, we have money and for Kitimat to do engineering, site work, and do the appraisal work in Liard, we feel it's necessary to do that work. We need to do more assessment work in Liard and we need to be ready to move if we have gas sale agreements made.

So we're moving on spending money in that light, we do not have money in there for -- if we reach a point where we would be ready to go to FID. So the FID expenditure profile is really not in there at this point. We expect we've got at least another year of assessment work on Liard.

And once again, back to the point, we've got to have gas sales contracts. We're not going to expose the big money post on FID period until we have gas sale contracts on-hand.

Asit Sen - *Cowen & Company - Analyst*

Okay. And my second question is on, since we are talking about cash margins in Gorgon, any early thoughts in the Canadian LNG cost structure? So relative to Australian, your thought process when you're evaluating Kitimat relative to T4 and Gorgon.

John Watson - *Chevron Corporation - Chairman, CEO*

We certainly been -- our efforts in Canada are certainly informed by all the work that we've done in Australia. But we don't have firm cost estimates. Anyone want to add about cost?

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George Kirkland - *Chevron Corporation - Vice Chairman and EVP*

We're in the stage of trying to get to more firm estimates of cost. We've got good ideas on resource, we want to confirm those. We need to confirm the cost of drilling those wells.

They're great wells in Liard -- we've got to find the right well cost to fit with the development so we've got work there. So we've got to come up with the design of the well that will make the most sense, so we've got work there. It's just premature at this point.

We built off of what we've learned in Gorgon and Wheatstone on the cost structure on the plant side. We have that in hand. And I'll go back to -- the critical element on it is the gas sales contracts. We got to get those.

John Watson - *Chevron Corporation - Chairman, CEO*

Okay. In the middle.

Justin Jenkins - *Raymond James - Analyst*

Thanks. Justin Jenkins with Raymond James. Maybe shifting to the US, given the production growth we're seeing and expect to see in US liquids, are you concerned about price differentials and how that may affect in all of those?

John Watson - *Chevron Corporation - Chairman, CEO*

Oh, good question. We've talked about that in that past. We're obviously not in the Bakken and we tend to be more in the Permian, and maybe I'll have Mike talk a little bit about some of what we're seeing on the pricing side.

It has an -- impact on both downstream and upstream so I'll let Mike talk about it generally. And then George or Jay can talk about that Upstream impact.

Mike Wirth - *Chevron Corporation - EVP, Downstream and Chemicals*

So I've touched on that with the one slide that talked about feedstocks. And if you look at NGLs, it is certainly for the benefit of people that are currently in the petrochemical business as we're seeing ethane and propane prices very advantageous. And it shows up in CPChem's results and it's part of their plan to move forward with this new cracker.

Certainly on ethane, the length of time that condition may persist is important to us and given the trends that we see right now and really the binary choice that goes with ethane, either into natural gas or into petchem feeds, that would look to be something that would be to the advantage of the petchem business for some time to come, and to the detriment I guess if you're producing the ethane in terms of realizations versus historic levels.

On the crude side, you've seen the WTI disconnect narrow as we discussed last year was likely to happen and we're seeing it pushed now into other domestic crudes. Really as production continues to increase, the inability to export means you have to try to price those crudes to displace other crudes out of the refining system that are being brought in from somewhere else, then at some point those discounts are required to incentivize refiners to buy that crude versus another economic alternative.

That situation, I think, has persisted as well. The wildcard there is if the policy constraint were to be lifted, now those crudes can get full market value in export markets and those differentials could disappear which is actually why on that LLS chart that it comes back. Because there's an assumption I think that PIRA makes in their work that the export ban is rescinded.

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From our standpoint on WTI we've been somewhat naturally hedged. The amount of WTI priced crudes we're running in our refining system roughly equivalent to the WTI priced crudes that we produce and sell into the market so we haven't been really hurt so much on that.

As it pushes down onto some of these other crudes, we also run those crudes in our system. And so as an integrated company, we do have an offset when those things happen as opposed to the pure producer who is just looking at a reduction in realization.

John Watson - *Chevron Corporation - Chairman, CEO*

Anything you want to add, George?

George Kirkland - *Chevron Corporation - Vice Chairman and EVP*

Yes. Specifically on the LLS one, we made a decision and I think a very good decision a couple years ago to invest in a pipeline that comes from the deep water Gulf Of Mexico and goes directly to our Pascagoula refinery.

So for a certain amount of those barrels and a large piece of our barrels, we are as about as naturally hedged as you could be with our barrels going directly to the refinery. And it's a positive, not all our barrels but a large percentage of them.

John Watson - *Chevron Corporation - Chairman, CEO*

Okay.

George Kirkland - *Chevron Corporation - Vice Chairman and EVP*

And I will just -- maybe one other thing. You saw Mike's trajectory on this differential and how it goes away. It goes back like you said to what we saw in West Texas early on for many of the crudes there.

In this country when there is an arbitrage somebody works harder to squeeze it out. And they do it pretty efficiently like the pipelines. The markets seems to really work at an exceptional level so I wish I could say that for every place. They work exceptionally well here.

Faisal Khan - *Citigroup - Analyst*

Okay. Thanks.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes. Thank you. I think right behind you has a question.

Allen Good - *Morningstar - Analyst*

Good morning. Allen Good, Morningstar. Pat, if I can -- the priorities of cash flow that you gave earlier, you mentioned obviously funding your dividend and the capital program are priorities. But it looks once you get to 2017, certainly you'll have a lot more cash flow than you've had these past few years.

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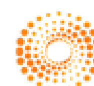

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Can you talk a little bit about the balance there between whether it'd be debt repayment and building back a negative debt position as you've done before or whether it's maybe a little bit greater dividend growth or maybe relatively more share repurchases compared to what you've done in the past.

Pat Yarrington - *Chevron Corporation - VP, CFO*

I don't want to get specific about projections out there. I think we've been consistent in saying the dividends have priority. We'll obviously take a look at what the capital program needs to be to support future value growth.

Right now we're sitting at a 12% debt ratio. And, I think, we have pushed ourselves partly true with the share repurchase program into a more efficient capital structure. I don't see a need for us to back away from that quite frankly because I think most people and ourselves included would have said when we had a 7% debt ratio and we had net debt -- net cash that we were under levered.

So I think having a little bit more efficient capital structure would be a nice place to be if the circumstances warrant that.

Allen Good - *Morningstar - Analyst*

Okay. Thanks. And then you mentioned a lot about the gas sales agreements needed for FID on some of these projects. Can you just talk about what you currently see in the market? I know you mentioned the deficit when we get to 2020 or so with LNG supply relative to demand. But what do you see right now from -- in the market when you're trying to market some of these projects? And how do you balance marketing, call it, Kitimat versus some of your expansions in Australia?

John Watson - *Chevron Corporation - Chairman, CEO*

Yes. I talked a lot about the gas markets. And what I see is a lot of tension right now actually between buyers and sellers. And it's easy to explain why we're seeing very low natural gas prices in this country and whether it's customers in Japan or in Europe, they have to compete with our businesses and they're seeing the advantage of low cost gas and they want some of them both for their businesses and for their consumers.

So they're also looking at the cost of gas in United States and saying, "We could put on liquefaction plant and transport and get it over to Japan or Korea and do so at a competitive price." So they're trying to push prices down. That's the natural thing for them to do.

And I made a comment that it's one thing for that on brownfield plants where there's existing infrastructure in place. But I think when you look at costs, transportation and perhaps a longer term view of domestic gas prices, I think you'll end up in a different place.

Our view has been for a long time that for the Asian market that oil-linked pricing made more sense - that's the alternative -- if you think about the margin, what the alternative is tends to be burning oil in many cases. That's how that market grew up over time.

We think the realities of cost are such that it's going to take stronger prices. If you look at some of the very low price expectations that have been cited in the media, I mean, our projects don't go ahead with those prices whether in Kitimat or Australia. So it's going to take a meeting of the minds by customers and suppliers or we'll see that gap widen over time.

Right now I don't think that we are market limited in selling LNG. We're supply limited. And that's why you're seeing spot prices above crude parity right now. And I think it's important that the industry and customers find that meeting of the minds so that our industry can continue to meet the energy needs that are out there by the 29-some countries that are now importing LNG.

Do we have anything more specific?

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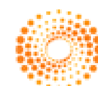

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George Kirkland - *Chevron Corporation - Vice Chairman and EVP*

Well, just maybe the huge risk out there right now is that there's not a meeting of the minds, there's not economic projects created through some mechanism of their participation or the pricing. If there's not a project then there is no gas for the demand.

And there's only two projects at least from what I saw last year that reached FID in the LNG world.

So it was not a lot of projects. And relative to the growth, it doesn't meet the demand.

John Watson - *Chevron Corporation - Chairman, CEO*

And in our chart we give the benefit of the doubt to a number of projects that are planned in United States and they're still a big gap. And we think it's going to take strong pricing to make them go.

Yes. Right there.

Iain Reid - *Bank of Montreal - Analyst*

Hi. It's Iain Reid from the Bank of Montreal. Just a question about Tengiz again, John, if I could. Obviously Tengiz is pretty important and pretty at the top of the cashflow per barrel metrics you've talked about. And you talked about an agreement you've made with government to how the expansions go ahead.

I'm just wondering whether anything that you know is going to impair in any way the lead in earnings per barrel numbers you've been reporting out of Tengiz in terms of what you need to do in order to move the project forward? Or is there something else in there which you can clear.

John Watson - *Chevron Corporation - Chairman, CEO*

I'll make a couple of general comments now then I'll let Jay speak. Obviously we've got a very good relationship with the government at Kazakhstan. We've had consistency in the application of our contract over time. And it benefits them greatly, and they know that. There's variable royalty and other provisions is that enabled them to be quite successful and that's why they've supported that contract.

I'll let Jay talk a little bit about going forward on the project.

Jay Johnson - *Chevron Corporation - SVP Upstream*

Thank you. The contract that's in place in Tengiz persists, and the terms that FGP and WPMP are being built under are the original contracts so there is no change. This agreement really comes from what we're talking about earlier in terms of learning lessons from previous projects. So it involves the financing of the project for the government share.

It involved a local content expectations. This project is heavily focused on smartly using local content. There's fab yards in Kazakhstan, which we will be utilizing, but we'll also be doing a lot of construction in the more traditional Asian fabrication yards.

It involved agreements around the logistics, how things be brought in, foreign workers' licenses, all the things that can derail a project during execution we want to reach an agreement upfront and try to make sure we had clear expectations with the government on the project.

So it really didn't affect the terms of the project per se.

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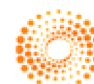

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Iain Reid - *Bank of Montreal - Analyst*

Okay. I just one other thing if I could. You've mentioned 12 wells in I think this year that you're particularly excited about. Can you just give us a bit of more details about whether these wells are going to be drilling --

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John Watson - *Chevron Corporation - Chairman, CEO*

That's the impact exploration wells?

Iain Reid - *Bank of Montreal - Analyst*

Yes, the 12 high impact.

Jay Johnson - *Chevron Corporation - SVP Upstream*

So these wells are across the globe, about half of them are in our focus areas, half are in these new test areas. There are a number of them in Kurdistan, region of Iraq that I mentioned earlier. We've got exploration wells in Duvernay and in the Permian as well as Gulf of Mexico.

Iain Reid - *Bank of Montreal - Analyst*

Thanks.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes. Over here.

Faisal Khan - *Citigroup - Analyst*

It's Faisal Khan from Citigroup again. I wonder, Mike, if you could tell us how much foreign crude that you could back out of your US refining system, given where you are today? And the second question is have you looked at using the free trade agreement between Korea and the US to move crude to the plants over there.

Mike Wirth - *Chevron Corporation - EVP, Downstream and Chemicals*

The amount of foreign crude we run in the system it's in our annual report supplement and so you can see that. We have longstanding term supply agreements with some suppliers from outside of the country that are very important to us and underpin our refining economics, particularly on the West Coast with some of the crudes we bring in from the Middle East, the logistics to get domestic crudes into the West Coast refining system are pretty challenged.

And so with good quality crudes from the standpoint of matching our refining system and a long term relationship that's yielded very competitive crude pricing over the years, I think both we and our suppliers have been well-served by that.

So to displace crude I think you'd see more of that happen where the logistics are favorable to bring domestic production into the refining system which tends to be in the Gulf Coast and so we'd really get our Pascagoula refinery where you could see that happen.

And it's an economic optimization question. We're after that everyday, looking at our alternatives both domestic and non-US. So going forward, it's a function of those markets and the logistics in pricing as to how that balance would work out.

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I can't say that we've looked at using the crude US free trade agreement to bring crudes from the US to Korea, which I guess is your second question. We can't export crudes today and I don't think that the free trade agreement changes that materially.

So I think until you see the export policy of the government modified, a scenario like that is unlikely. Korea's got pretty good logistics from the Middle East and other places as well. And so I think you're going to find places that are closer to the source of the crude that are likely to be more economic than taking US crudes all the way across to Korea.

Faisal Khan - *Citigroup - Analyst*

Okay. Sure.

John Watson - *Chevron Corporation - Chairman, CEO*

The microphone is coming.

Doug Leggate - *Bank of America Merrill Lynch - Analyst*

Thanks, John. Some follow-up. I'm just looking through the slides as you were talking. I want to go back to Paul's earlier question about the margin. It looks like the proportion of oil-linked production doesn't really change. The mix changes a little bit from oil to oil-linked, but the total oil leverage doesn't really change on your portfolio.

So Paul's earlier point was the unit margin improvement to close the cash flow gap. Can you give us some ideas as to how you expect unit margins to evolve with the change in the portfolio mix over the next three or four years? Thanks.

John Watson - *Chevron Corporation - Chairman, CEO*

Well, George -- are you talking about cash margin? Or are you talking about -- The cash margin George said from the major capital projects that we have are modestly accretive to the portfolio so we feel very good.

Now that's actually the entire portfolio, right?

George Kirkland - *Chevron Corporation - Vice Chairman and EVP*

That is the whole portfolio.

John Watson - *Chevron Corporation - Chairman, CEO*

That's the whole portfolio. So that's why I said we feel very good about these projects. And remember for Gorgon and Wheatstone, 75% of the gas is placed and it's placed at contracts that are oil linked. I hope that answers it.

Okay. I think I see fewer and fewer hands, in fact I see no hands in the air. So I think we've answered all your immediate questions. Thank you very much for your time and attention and your investments in Chevron. Thank you.

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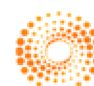

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