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EDITED TRANSCRIPT

CVX - Q4 2015 Chevron Corp Earnings Call

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OVERVIEW:

Co. reported 4Q15 loss of $588m or $0.31 per diluted share.

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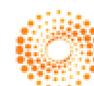

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PRESENTATION

Operator

Good morning. My name is Jonathan and I will be your conference facilitator today. Welcome to Chevron's fourth-quarter 2015 earnings conference call. At this time, all participants are in a listen-only mode. (Operator Instructions). As a reminder, this conference call is being recorded. I would now turn the conference call over to the Chairman and Chief Executive Officer of Chevron Corporation, Mr. John Watson. Please go ahead.

John Watson - *Chevron Corporation - Chairman & CEO*

Thank you, Jonathan. Welcome to Chevron's fourth-quarter earnings conference call and webcast. On the call with me today are Pat Yarrington, our Vice President and Chief Financial Officer and Frank Mount, the General Manager of Investor Relations. We'll refer to the slides that are available on Chevron's website.

Before we get started, please be reminded that this presentation contains estimates, projections and other forward-looking statements. We ask that you review the cautionary statement on slide 2.

Turning to slide 3, today, we announced a quarterly loss in annual results that were significantly below prior years. Pat will walk you through the financial details, but prior to that, I would like to provide a few thoughts. In 2015, we delivered strong underlying operating results. We had one of our best years in personal safety, process safety and environmental performance. On most measures, we either matched 2014's record low or set new lows in 2015.

The downstream business produced strong financial performance underpinned by one of the best years ever in terms of facility utilization and reliability. In upstream, we grew production by 2%, within the guidance we provided a year ago. Additionally, we logged a five-year reserve replacement ratio of 113%.

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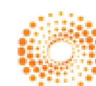

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Despite the strong operating results, an oversupplied market led prices to fall to levels not seen since 2004 (corrected by company after the call). As expected, our financial results suffered. Across the corporation, we are responding to this low-price environment. Our priorities remain completing projects under construction and reducing spend, both operating expense and capital, to levels consistent with current conditions. We will also continue to divest assets where we can obtain a good value.

Our number one financial priority is to maintain and grow the dividend. We have a strong balance sheet for precisely transition times like this. Pat will now take you through our financial results.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Okay, thanks, John. I will be presenting three slides on our financial results. Additional earnings and production variance slides, along with the tabulation of special items are available in the appendix section of the presentation on our website.

Turning now to slide 4, an overview of our financial performance. The Company's fourth-quarter loss was $588 million or $0.31 per diluted share. Excluding foreign exchange, impairments and other special items, earnings for the quarter totaled $491 million or $0.26 per share. For the year, earnings were $4.6 billion or $5.6 billion, excluding special items and foreign exchange. Return on capital employed was 2.5% and our debt ratio at year-end was approximately 20%.

During the fourth quarter, we paid $2 billion in dividends, bringing our total for the year to $8 billion or $4.28 per share. 2015 was the 28th consecutive year of annual per-share dividend increases.

Turning to slide 5, cash generated from operations was $4.6 billion during the fourth quarter and $19.5 billion for the full year. Fourth-quarter cash flow declined because of lower commodity prices and lower downstream margins. Proceeds from asset sales for 2015 were $5.7 billion bringing our two-year total to more than $11 billion. Cash capital expenditures were $7.4 billion for the quarter and $29.5 billion for the full year. At year-end, our cash and cash equivalents totaled more than $11 billion. During 2015, we borrowed approximately $11 billion and at year-end, our net debt stood at $27 billion resulting in a net debt ratio of approximately 15%.

Slide 6 compares 2015 full-year earnings with 2014. Earnings for 2015 were $4.6 billion or approximately $14.7 billion lower than the 2014 results. Special items such as asset impairments, project suspensions and other charges, along with lower gains on asset sales, reduced earnings between periods by $3.1 billion, while the change in foreign exchange impacts increased earnings by approximately $300 million.

Upstream earnings, excluding special items and foreign exchange, decreased $14.6 billion between periods as lower realizations were only slightly offset by higher liftings, lower operating costs and other items. Downstream results, excluding special items and foreign exchange, increased by $2.2 billion, primarily due to higher margins. The variance in the other segment primarily reflects lower tax items. I'd like to now turn it back to John.

John Watson - *Chevron Corporation - Chairman & CEO*

Thanks, Pat. Turning to slide 7, we're aggressively reducing investment and driving cost out of our business. During 2015, total spend was down approximately $9 billion or more than 12%. Capital outlays alone were down $6 billion. Part of this reduction was long-scheduled as in-progress major capital projects were completed and outlays ramped down.

In addition, capital expenditure savings were achieved because of deliberate choices being made to reprioritize and repace investments and by challenging supply chain costs. Operating expenses also declined between years. The largest impact occurred in our upstream and corporate segments reflecting purposeful initiatives to rationalize headcount and boost workflow efficiencies. In upstream, declining costs and growing production led to a lower operating cost per barrel, which is expected to exceed 10% when the final results are reported in our 10-K.

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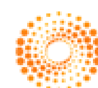

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Looking to 2016, we expect to see additional spend reduction in the range of 13% to 18% as the full-year run rate effects of many of the 2015 initiatives come to bear and incremental cost-saving projects are implemented.

Turning to slide 8, our investment priorities remain consistent. We will fund investments to ensure safe, reliable operations, complete the projects already under construction, enable investment in high return short cycle opportunities and preserve options for viable long cycle projects.

In December, we announced a 2016 capital program of $26.6 billion, which was within the guidance range provided on our third-quarter earnings call. Since then, market conditions have deteriorated and we will be responsive. Flexibility in our capital program allows discretion in our spend with a likely outcome for 2016 being near the bottom of our guidance range. Looking beyond 2016, our flexibility will continue to increase and we expect further reductions in our capital program.

Turning to slide 9, divestitures are a normal part of our portfolio work. We will divest assets that no longer have a strategic fit or do not compete for capital with our other investment alternatives. Our asset sales program has been successful as well-timed transactions have captured good value and generated $11.5 billion in cash through the end of 2015.

Over 2016 and 2017, we're targeting another $5 billion to $10 billion in divestments. Publicly known in-progress transactions include New Zealand and South Africa downstream businesses, the Hawaii refinery, upstream and pipeline assets in the Gulf of Mexico shelf and gas storage assets in Canada. Additional opportunities are being pursued and will be disclosed in due course when commercial sensitivities permit. In all cases, we will only sell assets where we can realize fair value.

Turning to slide 10, in 2015, we grew annual production by 2%. Rampups at major capital projects, including Jack/St. Malo and Tubular Bells and the Deepwater Gulf of Mexico and Bibiyana expansion in Bangladesh, along with shale and tight production growth of approximately 30%, contributed to increased volumes.

Additionally, current prices benefited production through PSC and other entitlement effects. Offsetting the increases was the effect of a shut-in of the Partitioned Zone production, the impact of asset sales and a base decline of less than 2%. For 2016, our production guidance is a range of flat to 4% growth. The uncertainty is a reflection of market conditions, current activities and divestments.

To clarify, production from the Partitioned Zone remains shut in. The exact timing of production restart is unknown and dependent on dispute resolutions between sovereign states. Contributions from major capital project startups and rampups will be significant in 2016 and small movements in timing or the pace of rampups can make a significant difference in annual production.

Uncertainty in exact timing and precise composition of asset divestments will be another variable because we are value-driven on all sales.

Finally, current market conditions will create impacts related to PSC and other pricing-related entitlement effects. Additionally, low prices will restrict our overall spend levels, which in turn will result in somewhat higher base decline rates.

Turning to slide 11, our reserve replacement in 2015 was 107%. We saw significant adds in our shale and tight assets, which reflect strong well performance results and new geologic data in these plays. Additional volumes were booked based upon development drilling results at Wheatstone, strong base business performance resulted in positive reserve revisions, including Tengiz, Thailand, Nigeria and the Gulf of Mexico. Commodity price impact benefited in entitlement volumes for profit-sharing and variable royalty contracts. Our five-year reserve replacement ratio is 113%.

Now let's talk about progress on our major capital projects starting with Gorgon. Turning to slide 12, at Gorgon, system commissioning from train one is in the final stages with key process units starting up, a cooldown cargo delivered and system cooling underway. The first LNG production is expected within the next few weeks with first cargo anticipated soon after that. We will be ramping up train one in the months ahead. Gas for train one startup will come from Jansz-Io wells. These wells have been successfully flow-tested and initial performance indications look good.

On trains two and three, all modules have been delivered to site and construction is progressing. Lessons learned from train one are being applied and key milestones are being achieved on schedule with start-ups expected at approximately six-month intervals after train one.

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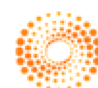

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Turning to Wheatstone on slide 13, on the upstream portion of the project, hookup and commissioning of the offshore platform is progressing. The trunkline is ready for service and the final tie-in work is ongoing. Six of nine wells are drilled and completed offering sufficient well capacity for the first train. At the plant site, the operations center and LNG loading jetty are complete and tank hydro testing is ongoing. As previously communicated, initial module fabrication in Malaysia was delayed.

We were successful in mitigating further delays and all modules required for train one are now on site. Piping and cabling work is ongoing. The pace of this work will determine critical path towards first LNG, which is expected to be midyear 2017. Train two module deliveries are underway and on track. Turning to slide 15, I've just run through the steps we've already taken to improve our financial results and to be responsive to current market conditions. On the elements we control, operating expenses, capital outlays and project execution, you can expect even more improvements in 2016. However, price remains a significant uncertainty. I'll come back to that in just a minute.

What I would like to talk about is other projects that we have that are also contributing to our performance. If you look at the chart on page 14, you'll see that we have significant progress on new projects. We have the Lianzi and Moho Nord, which came on in the fourth quarter. Chuandongbei, the first train of Chuandongbei has come online and here in January of 2016.

We're seeing progress on Angola LNG as recommissioning is underway. We expect to introduce gas to the plant later this quarter and have first LNG cargo in the second quarter. Mafumeira Sul in Angola, Bangka in Indonesia and Alder in the North Sea are also progressing towards expected startup later in the year.

I mentioned that price is a very significant uncertainty to us going forward. If you look at slide 15, you'll see a chart that was put together by WoodMac. This obviously represents a significant source of uncertainty in cash flows going forward. Consistent with many of you, we believe demand will continue to grow. The larger wildcard or uncertainty, if you will, is supply.

Non-OPEC liquids production, which is shown on this chart, remained much more resilient in 2015 than most predicted. With the significant contraction in global investment caused by low prices, the world would see supplies drop off. WoodMac shows that occurring this year, thereby pushing the oil market into better balance. Until that balance occurs, prices will continue to be constrained and the financial damage to the energy sector seen in 2015 will continue.

Relative to balance sheet strength and growing flexibility in our spend, Chevron will be advantaged relative to the others in this industry as prices rebound. We are well-positioned to benefit when the market does balance and prices begin to rise because of the leverage that we have and our growing production profile.

That concludes our prepared remarks. We're now ready to keep some questions. Keep in mind that we do have a full queue, so please try to limit yourselves to one question and one follow-up, if necessary. We will do our best to get all of your questions answered. So Jonathan, please open the lines.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Phil Gresh, JPMorgan.

Phil Gresh - *JPMorganChase - Analyst*

Good morning. Thanks for all the color today. The dividend coverage priority is obviously key and very clear. On the third-quarter call, you built us a bridge to cover the dividend with free cash flow by 2017, which looked fairly reasonable in the $50 or so environment. And you highlight the flexibility for 2016 in the slides. So I guess what I was wondering is looking out to 2017 if we're sub $50, how low can you realistically go with

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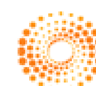

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additional CapEx and OpEx cuts before you feel like you might need asset sales or the balance sheet to bridge the gap? Is there a level of CapEx you really don't want to go below?

John Watson - *Chevron Corporation - Chairman & CEO*

Well, our flexibility continues to grow and, Phil, we're obviously working that number very closely. The level of spend -- if we continue to see the kinds of prices that we're seeing now, the cost of goods and services will continue to decline. We've got the impact of foreign exchange rates, etc. The biggest change between what we'll spend this year and next year is really the rampdown from major capital projects. So for example, this year, we'll be spending about $6 billion on LNG projects around the world, obviously, finishing Angola LNG and then as we wind down Gorgon and have a little more spend on Wheatstone. We expect next year that spend will be under $2 billion, so you gain $4 billion right there.

And then our flexibility grows as time goes by. We obviously have to invest to keep our operations reliable. We will still have some projects that are under construction and being completed and additional commitments and drilling off of platforms and things of that sort. But I think our flexibility is significant. We gave you a range of $20 billion to $24 billion, but we're going to continue to drive that number down.

I guess my overall message is that we're going to continue to live within our means that we have and it obviously makes sense to finish the projects under construction. We have a strong balance sheet and maybe I'll offer a couple of comments in that area because a lot of people ask. I've given the priority is to pay and grow the dividend and in order to do that, obviously, you do have to invest in the business because we are a depleting resource business.

So those are always the first two priorities that we have consistent with good economics on the spending. We've indicated that we're in a long cycle business and in such a long cycle business where you can have ups and downs in the commodity markets and you get started on long cycle projects, you need a strong balance sheet and so we have always advertised that and indicated that a AA rating was what we were looking for.

And that is really indicative of needing to have a strong balance sheet. But the reason you keep a strong balance sheet is so you can withstand the ups and downs of the business and right now, we're in the downs with prices low and so we'll use our balance sheet this year almost regardless of where prices are during the year. And we're going to cut costs, we're going to reduce spend where we can and that flexibility grows in time.

We work very closely with the rating agencies. We talk to rating agencies. They see our internal forecasts around our business. They see more than you do, in other words. And so we'll be very clear where our priorities are and where the flexibility is and then they have to do their job. But we think that we'll retain a very strong balance sheet and the ability to withstand these ups and downs.

Phil Gresh - *JPMorganChase - Analyst*

Okay. That's very helpful. Thanks. And then just on the projects, I appreciate all the updates there. Maybe you could just let us know where you stand on the FID for Tengiz and given what you've been saying about the macro environment and how long this could last. Where does that stand today?

John Watson - *Chevron Corporation - Chairman & CEO*

As you know, Phil -- it's a good question. Tengiz, as you know, has been a very good business for us in Kazakhstan. We and our partners have had very good relationships there and we've had a lot of success, financial and otherwise. And the next phase of opportunity there is the Wellhead Pressure Management Project and the Future Growth Project. And we've been working this for some time and we've consciously delayed FID. When prices came down, we consciously delayed FID so that we could get additional definition around the project, get greater certainty around what the costs would be and frankly to drive costs down given the opportunity that is present given conditions in the industry and we've had some success with that.

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But we're not at the point where we're ready to take FID today. With low prices that we're seeing, we're working closely with our partners to ensure that we have adequate funding for the project and to further take costs down. We have been pacing investment. We've been doing critical infrastructure work, but we're still working this project to get it in condition for FID. So I think you'll see us continue to pace investments and we will keep you updated when we can. We do think these projects are good. We do think that they will go forward, but we're continuing to work it to drive costs down and get alignment on financing.

Phil Gresh - *JPMorganChase - Analyst*

Thanks, John.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays Capital - Analyst*

Good morning. John, two questions, if I may. For 2016, you gave a range of $25 billion at the low end and you indicate that you -- given the market condition -- you most likely go down to $25 billion. If you really have to, is there any additional area that you would be willing to cut and drive it down further and what's that area and by how much or that this is really the minimum that you can go given the major projects pending?

The second question, if I could, is a quick one. We understand that you have one of the strongest balance sheets, but the credit agencies are also becoming increasingly hostile to the energy sector and look like that they may have a sector downgrade anyway. So what may be the minimum credit rating that is acceptable by the Company?

John Watson - *Chevron Corporation - Chairman & CEO*

Okay, well, in terms of flexibility when it comes to capital program, we've given you that range for a good reason. As I indicated, we've got some committed spend that's likely to go forward regardless of the price environment and really it pertains to the big LNG projects and the projects that are under construction. So we're going to continue to work spend down and there's always a little bit more flexibility. There's the uncertainty of exchange rates and things of that sort, but I don't want to flag a significant reduction below the range -- below the $26.6 billion that's in our budget and below the range that we've talked about because I don't want to shut in all rigs around the world, for example.

There obviously are things you could do that I don't think are the proper things to do given our expectations going forward. For example, we've done terrific work in the Permian Basin to get our costs down. And we want to keep that momentum going. So we have 6 operated rigs, 14 non-operated rigs. We want to continue that activity. Our group has done a terrific job of getting costs down and obviously, at $30, every business is stressed, but we think that supplies are going to be needed and we want to continue the activity that we have there. We need to continue to drive down costs, but we want to continue that activity. So there's a little bit more room, but I don't want to flag something outside the range.

I offered some comments on the philosophy. Maybe I let Pat talk a little bit about interaction with the rating agencies and her view on what sort of minimum requirements might be.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Yes, so as John said, the rating agencies need to do what the rating agencies need to do and they have conservative oil price scenarios out there and I think that's understandable. If you were in their position, you would be doing the same thing and I think it's perfectly reasonable to think that Chevron, along with everybody in the industry, in this particular price environment would be up for review. They've indicated that many of the companies are up for review. I'm certain that Chevron will be in that queue right after the first tiering goes through.

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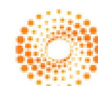

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So if a downgrade does occur, and I think they've been moving in that direction, but if that were to occur, we would not be the only one that that would happen to. I don't see it materially impacting our cost of funds or materially impacting our ability to secure financing.

And in terms of a minimum, I guess I don't think of it that way. We have a strong balance sheet even if there were to be a downgrade. We have a very strong balance sheet, amongst the strongest in the industry, and we've already committed and said multiple times that we are going to get balance. We will live within our cash flow. And I think that is the profile that we put forward to the rating agencies.

John Watson - *Chevron Corporation - Chairman & CEO*

I will just say, you asked about flexibility on CapEx for 2016. I don't want to suggest there isn't additional flexibility for 2017 and 2018 because there is, particularly if lower prices persist. But we've given you a range that reflects what we think today based on the forward look. Obviously, if conditions remain where they are today, we'll review those numbers just as we would all our other operating statistics.

Paul Cheng - *Barclays Capital - Analyst*

Thank you.

Operator

Jason Gammel, Jefferies.

Jason Gammel - *Jefferies LLC - Analyst*

Thank you and hi, everyone. I just wanted to ask about, as you are reviewing potential capital expenditure reductions, how the Deepwater program actually fits into this discussion because I note a string of successes in both exploration and appraisal that's occurring in the Deepwater right now, so how do you think about that drilling program? And then secondly, within the Deepwater, how do you see that competing over the medium term? Do you still see that as being within the cost curve based upon your own projections of where oil prices could go?

John Watson - *Chevron Corporation - Chairman & CEO*

Yes, it's a great question and it's one of the areas that I think we and others in the industry are looking at very closely. And I guess if I can take just a second to sort of back up a little bit, if you look at the macro environment on where supplies are going to come from to meet any demand estimate that might be out there, the world is going to need Deepwater oil. It is a significant resource and over time those barrels are going to be needed.

Now, right now, the costs in the Deepwater haven't come down quite as fast as they have onshore. We obviously have seen some rig rate reductions, but in general as we get to deeper and deeper water, some projects are challenged. We have mentioned last year in our analyst meeting that we felt it would take larger accumulations to make some of these Deepwater projects successful. So the precise numbers are being worked, but you are going to need bigger accumulations and larger hubs in order to justify the infrastructure. And then tieback similarly will need somewhat higher prices.

We had some special charges in the fourth quarter and $0.5 billion was writing off Buckskin and Moccasin and that's a project that we thought would go forward. First, we thought it might have the potential to be a hub and then we thought it had the potential to be a tieback. And I won't say that that project couldn't have gone forward and that it wouldn't meet minimum thresholds depending upon your forward view of prices, but relative to our alternatives, we felt that for the foreseeable future, we've got better places to put our money. And so we made the very difficult decision to not go forward with that project.

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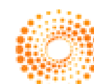

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And so the clock was ticking where it was going to require a couple billion dollars of investments over the next few years and we just felt over the next few years, we are going to have better places to put our money, notably the Permian.

So there are tough choices being made. Now, we have a good position in the Deepwater. We've been as successful as anyone there and we have been successful in driving costs down. We've seen really unbelievable progress last year. We had a 30% reduction in days per 10,000 feet in 2015 versus 2014. So our experience in the lower tertiary in particular, we're getting better and better at understanding it and driving costs down. We're encouraged by what we've got at Anchor. We've got some appraisal work that's undergoing there.

We've got another potential hub development with a group of fields that we had put together with a couple of partners in the industry to try to create a hub class development. But this is a work in progress for us to make sure we can have a resource cost balance to make these projects attractive to meet our thresholds. I'm comfortable we'll be able to do that. It's just we were pushed with Buckskin and Moccasin and you are seeing others make similar choices if it doesn't quite fit relative to their alternatives.

Jason Gammel - *Jefferies LLC - Analyst*

Appreciate those thoughts, John. If I could just ask a real quick follow-up, the $1.1 billion writedown that you had in the upstream, are you able to provide any split between exploration and depreciation on that?

John Watson - *Chevron Corporation - Chairman & CEO*

Why don't I let Pat give you a little bit of color on some of those because, you're right, it's important to know which -- it does hit multiple lines on the income statement and you saw that those numbers were up a little bit.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Yes. So I would just say for the full year, if you look at the income statement, the special items that are categorized under exploration expense would be about $1.1 billion, and if you look at the full year for DD&A off the income statement, the special items amount to about $3.5 billion.

Jason Gammel - *Jefferies LLC - Analyst*

That's great. Thanks very much, folks.

Operator

Ed Westlake, Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

Good morning. I think you're going to get 17 different questions on the same theme, but just you talked about $20 billion to $24 billion of CapEx in 2017 and 2018 and I think on the last call, you mentioned a slower rate of growth, 1% to 1.5%. Obviously, that rate of growth would also help project execution and hopefully costs will come down.

If you were to go down to a lower number of terminal CapEx for a period, maybe just talk a bit about the growth implications beyond 2017, how would it affect the growth rate? And then I have a follow-on.

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John Watson - *Chevron Corporation - Chairman & CEO*

I'm not sure I'll be able to answer that fully here. I think we will probably give you -- we will give you a more complete answer when we get to March when we have a chance to run through it. But I would just say if you look at growth not just through 2017, but through 2018, we feel pretty good about it and that's largely a function of the projects we have in flight.

In 2018, you'll have a full year of production obviously from our big LNG projects, which you won't have in 2017. We also have other projects that remain under construction now that will come on during that period, projects like Hebron in Canada and Bigfoot and others that will come on in that window. So we'll have continuing momentum from those projects and we'll be ramping up our shale activity during that period, notably in the Permian.

So I think the profile will be attractive beyond 2017. Now, ultimately, the cumulative effect of the reductions in capital, if they persist at a low level, will be felt. But I think we will have a little more resilience than people think. Now, that's other things being equal, depending upon where prices are, depending upon asset sales and things of that sort.

But in terms of what sort of spend do you need to sustain production indefinitely, that will be a function of a lot of things, notably the cost environment that we see. I do think that our position in the Permian gives us a little bit of an advantage over others during this period because you've seen some of the numbers we've given you previously. We have the capability to ramp that up and mitigate some of the declines.

So even if we see a slight increase in our base decline, which has been tracking at under 2%, even if that goes up a little bit, we should be able to substantially mitigate a lot of that through the activity that we have in the shale. But we will try and give you a little longer term outlook in our upcoming meeting in March, if that's okay.

Ed Westlake - *Credit Suisse - Analyst*

And then the follow-on is on the OpEx and SG&A part of that reduction of 13% to 18% from $61 billion down to a lower number. Obviously, the market helps give you some OpEx and then there's some structural changes that you've made, some difficult decisions. Should we think that there's another big structural shift that you can make to maybe even outpace the market in terms of OpEx and SG&A reduction say into 2017?

John Watson - *Chevron Corporation - Chairman & CEO*

Well, we're working really hard and we're pulling all levers. Obviously, the cost in goods and services in our procurement group is having a fair degree of success. I will say we've had more success in the US than internationally, number one. And so we'll continue to drive that hard. That's just a function of contracts and the competitive environment overseas. So one, we'll be working that very hard. We'll be working additional efficiencies.

Just as an example, we have -- we still have reorganizations in flight, so our employee count was down about 3200 between the end of 2014 to the end of 2015. There are another 4000 coming this year and a lot of that work is ongoing right now. So we're being careful. We're pretty thoughtful about the way we do this sort of work to make sure that we keep the right people in our organization for the longer term, but the reality is activity is likely to be lower and we do have a number of projects that will be ramping down and that we're going to work to be fair about how we do that so that we keep a lot of the great talent that we have that's been working around the world. But there's no question, we're looking at organizations and have a number of reorganizations in flight. So our desire is to keep moving that.

Now I will say on a dollar basis, when you are growing production and bringing on new assets, you have operating expense that you will incur. That's why we gave you the unit OpEx number, but we drove that one down. It will be -- there's still some final allocations for what goes in the 10-K and the oil and gas disclosure, but it's down over $2 a barrel and I think that general trend, we're going to continue to drive that number down.

Remember, in our OpEx, 40% of our OpEx is downstream and our downstream had record performance this year and as you know, they've had restructuring underway for some time and it is not that they are immune from some of the efforts we have to reduce costs, but I don't think you'll

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see a structural shift in our downstream costs. The corporate center we've obviously looked at and made some significant changes. A lot of people left the payroll in December and so those benefits will be felt and the ongoing work that I've described in the upstream.

So my message is we're driving it hard, but we are trying to be thoughtful so that we keep the talent we need for the long haul in the organization.

Ed Westlake - *Credit Suisse - Analyst*

Makes sense. Thank you.

Operator

Doug Terreson, Evercore ISI Group.

Doug Terreson - *Evercore ISI - Analyst*

I wanted to get some clarity on 0% to 4% growth production and the point that John made a few minutes ago about higher decline rates and specifically is it reasonable to assume that we're going to have growth this year from the United States, Africa and Australia and declines elsewhere? Is that the accurate way to think about it?

John Watson - *Chevron Corporation - Chairman & CEO*

Africa, Australia and the United States? I think that is a pretty good way to look at it. We tend to look at it by project, but we do have obviously the shale and tight that's growing and ongoing rampup in the Deepwater. Obviously the projects in Australia and then Angola and volume from Angola -- from Angola LNG. So I think that's a pretty good characterization of it, yes.

Doug Terreson - *Evercore ISI - Analyst*

Okay. And then also, John, on the neutral zone, there's been some more commentary on progress and so my question is the progress real to your knowledge and if it is -- if we're seeing progress underway, what period of time could those fields return to full production if in fact there was movement? Meaning is this something we should think about in terms of weeks or months or quarters? So just an update there would be appreciated.

John Watson - *Chevron Corporation - Chairman & CEO*

I'm sorry. I missed the first part of it. Which locations?

Doug Terreson - *Evercore ISI - Analyst*

John, on the neutral zone, there's been some commentary --.

John Watson - *Chevron Corporation - Chairman & CEO*

Yes, in the Partitioned Zone. Look, I gave you guys a long explanation last quarter. The fields, they are still shut in and there's been ongoing dialogue between the Saudis and the Kuwaitis. And as I described before, there's plenty of incentive to bring those fields back online and I probably have to leave it there.

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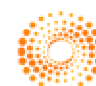

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What I will tell you, implicit in our assumption is about a midyear startup. That's sort of -- the middle of that range includes a midyear startup, but remember 2014 production was about 80,000 barrels a day. When you start up midyear, you don't start up at 80,000, you start out at something lower than that because the facilities have been mothballed and preserved for a period of time. So that's what's reflected.

To the extent that agreement is reached and there have been discussions, to the extent agreement is reached and it started up sooner, it'll be to the higher end of that range and to the extent that it continues, the bottom of the range is zero if they don't start up at all this year.

Doug Terreson - *Evercore ISI - Analyst*

Okay. Fair enough, John. Thanks a lot.

Operator

Doug Leggate, Bank of America Merrill Lynch.

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

Thanks. Good morning, everybody. John, I know I've tried this one before, but in light of the further collapse in oil prices, I wanted to ask you again about growth versus growth per share. What's really behind my question is further investing in a highly uncertain environment and what are, I'm guessing, potentially sub-economic assets, is there an argument just for outright deferral and outright declines that can be picked up again through share buybacks if indeed oil prices did recover absent any major capital commitments? I'm just wondering philosophically how you think about that given the potential risk to your credit rating that we stand right now.

John Watson - *Chevron Corporation - Chairman & CEO*

Doug, actually, I think it's a fair question. The message I've been trying to convey is that we're dramatically cutting investment going forward. We all have to make estimates of what oil and gas prices will be going forward, but in terms of longer cycle projects, we aren't initiating. We aren't initiating any. As I've described, we've got some momentum in the system from projects under construction, but we are -- you are going to see us preferentially favor short cycle investments, and if they don't meet our hurdles, we won't invest.

Taken to the extreme, we're not just going to invest to hold volume. We're going to invest where we think we can get good returns and so we've repurchased shares in the past and we'll do that again. We won't fund opportunities that we don't think will be effective for the Company. And you and I can both put some hindsight on some of the things that we and others in the industry have put money in right now, but we're tightly scrutinizing what we're spending right now. And I hope I can make that really clear to you.

That's indicative of the kind of choices we made with Buckskin/Moccasin. It's indicative of the kind of changes we've made with a big development in the North Sea. That's the direction that we're going. Again, trying to balance our expectations for the forward curve.

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

I appreciate the answer, John. I know it's not fun for anyone right now, but my follow-up is really -- I don't know who wants to take this, but it's on the asset sales. There seems to be -- everybody and their grandmother seems to be looking to sell assets right now. Just wondering if you could characterize how you see the depth of the market and whether or not you think you can still execute on that program. I will leave it there. Thanks.

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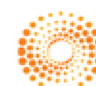

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John Watson - *Chevron Corporation - Chairman & CEO*

Yes, that's a real good question. In fact, I think your point is spot on. I think it's a terrible market to be trying to sell most assets out there, particularly obviously oil-related assets and that's why I've been pretty circumspect around asset sales. We sold $11 billion over the last two years, but we're giving you a 5 to 10 for the next two years in the numbers that I've given you. And from a strategic point of view, there are some opportunities out there that I think will be tough to execute, and if we can't execute them, we won't sell them.

If you look at the kinds of things we have sold, we've gotten very good value. So for example, the last two years, there was a lot of strength in the infrastructure market selling pipelines, for example. And on strategy grounds and on valuation grounds, we felt that we were going to limit our investments in the pipeline business to those that are critical to our upstream and downstream sector and we could sell those. Things like Caltex Australia, we thought values were very strong and assets had -- we've been very well aligned with them, but they were heading off potentially in a growth direction and we felt that, from our strategic point of view, that it would be best to exit when we did.

So we've been very careful and I can tell you the assets going forward, we don't advertise them, but if you look at the ones where there's information in the public domain, I think you'll see that those are assets where there are potential buyers out there at good value. So I think your admonition is a very good one and it's why we haven't put big numbers out there.

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

Appreciate it. Thank you.

Operator

Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

Good morning, guys. John, you answered the Tengiz question before, yet are there any FIDs that are currently baked into 2016 and your 2017 to 2018 budget ranges and I guess as it relates to CapEx? How much flexibility is there to open or reprice contracts within projects post-FID? It appears to be there's more flexibility than at least what we had perceived.

John Watson - *Chevron Corporation - Chairman & CEO*

Yes, it's a good question. Obviously, for any project we had in flight, we went back to all the project teams and created an expectation that they will look to try to capture cost reductions. In some cases, where you have -- where you bid contracts and the terms and conditions are fixed, you are where you are. But on anything where you have not taken FID, you have some flexibility to go back to the providers of those services. And that's why we've delayed our costs.

Part of the recycle of projects is to see if there's a different development scheme and things like that. For example, Rosebank has a different development scheme, but part of it is also to be sure you can capture the cost reductions that are available -- that might be available in the marketplace, and sometimes you have to just say we're not going do this if we don't get better costs and that tends to focus partners and others. So we expect to see declining breakevens as a result of those initiatives both to reframe projects in some cases, or to try to drive costs out.

In terms of what we've got actually planned, most of the effort -- most of the things that we would call FIDs are really things like infield drilling. So for example, the next phase of drilling at Agbami, the next stage of drilling at Jack/St. Malo, which are utilizing existing rigs and drilling off of existing -- to support existing infrastructure.

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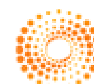

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In terms of big, new greenfield projects, it's relatively few. There are some that could be in the budget, but it's going to depend on that price/cost balance I've been talking about, and that's why I say we have significant flexibility going forward as we complete things like Gorgon, Wheatstone, Mafumeira Sul, Angola LNG and others.

Evan Calio - *Morgan Stanley - Analyst*

Great. So it sounds like they're not currently in the budget [Company note: The plan does include funding for the Wellhead Pressure Management and Future Growth Project at Tengiz in Kazakhstan. This comment was not addressed by management during the call]. Just a follow-up question on a smaller item. Are the startup volumes at Gorgon, are they at spot or contract pricing and can you give us any color or update on the spot LNG market and whether you see an ability to term up any incremental uncontracted Gorgon volumes and I'll leave it at that?

John Watson - *Chevron Corporation - Chairman & CEO*

Yes, in general, the sales would be under contract. In fact, you've probably seen recently, we have signed a couple of additional HOAs. We've said all along that we thought that it's appropriate to have about 85% under long-term contract for Gorgon and Wheatstone and with those HOAs, assuming those turn into SPAs, we'll be over 80%. So we feel pretty good about that and those are medium-term type contracts that we've put in place. So we feel good about it. But during the rampup, we've got contracts that are available for these volumes.

Now as far as the overall LNG market, it's lousy when you look at the spot -- at spot cargoes and prices. And I expect we're going to go through a challenging -- as an industry -- we're going to go through a challenging period for any volumes that will be sold spot into the marketplace.

Evan Calio - *Morgan Stanley - Analyst*

Appreciate it.

Operator

Ryan Todd, Deutsche Bank.

Ryan Todd - *Deutsche Bank - Analyst*

Thanks. Good morning, gentlemen. Question, you've talked kind of indirectly a bit about your view towards the short cycle on the US onshore in the near term and I appreciate some of that color, but can you talk about trends and activity levels and volumes, and particularly in the Permian? And I guess just in a broader sense how you look to manage the short cycle spend over the near to medium term? It sounds like it's clearly taking preference over long cycle spend, but what's dictating the difference between spending $3 million or $2 billion or $1.5 billion or so on? How do you manage that over the medium term?

John Watson - *Chevron Corporation - Chairman & CEO*

It's a fair question. The short answer is there's some judgment that we're applying. We have been on a pathway in the Permian of first assessing what we have. So we've been drilling both vertical and horizontal wells. Over the last year, we've really converted our entire program to horizontal wells and really getting -- an overused term -- but getting our factory model in place. And we've done that. And our costs are now very competitive with some of the best in the business. So that is taking place. We want to continue that effort.

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Our view is not that prices are going to stay at the low range they are today, but part of living within your means is limiting just how many rigs you deploy. We've got 6 operated rigs today. We've got 14 NOJV rigs that are operating today and we think that's about the right balance. We have flexibility to move up and what I've told our people, if they stay on the cost trajectory that they are, we're going to look to fund them.

The economics in some of the best areas at strip-type prices work. They are not as good as we like at higher prices, but they work. And so that obviously is guiding us, but I would hate to lose the momentum that we have in the Permian with some of the cost-reduction efforts we have underway.

We've told you we've got 3000 locations that we think meet economic threshold at $50, so obviously prices aren't $50 today, but it's indicative of the strength of the portfolio that we have.

Ryan Todd - *Deutsche Bank - Analyst*

Great. I appreciate that. Then maybe just one stepback question. We spend a lot of time these days talking about how rough everything is and all the costs that are having to be cut. But maybe if we tick around and just look at the other side, can you address any positives or opportunities that you are seeing? Resetting the cost structure is clearly one, but anything that you are seeing emerge as you look towards your position in your business for the next cycle, some of the positive things, whether it's resource capture, or fiscal terms or any other opportunities that are a silver lining on what we're seeing right now?

John Watson - *Chevron Corporation - Chairman & CEO*

Well, thank you for a silver-lining question. We're looking for this internally too. You are right; it is very tough times. A couple thoughts that I will give you. One, I think the cost reductions we're going after, most of them will be permanent. For example, the efficiencies that we've gained in our drilling, those are permanent regardless of what happens to rig rates going forward, so whether it's the Deepwater that I talked about earlier or onshore, so that's number one.

Number two, I think the benefits that we're taking on in some of our organizations and some of our structures, I think a lot of that will be permanent. And I think we've undervalued what simplicity in organizational structures can provide. So obviously we're taking out some layers. We've got rolling reorganizations that are being implemented around the world and I think that simplicity and clarity will be a positive for the business.

In terms of resource capture, there are better opportunities today than there might have been a year ago and the balance between what I will say the expectations and value of resources getting better aligned, so there are opportunities emerging. Our priority is obviously the things I've been talking about this morning, but we are in a resource business and you do want to be attentive to the opportunities that are out there.

Ryan Todd - *Deutsche Bank - Analyst*

Thanks.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs - Analyst*

John, you made the comment that non-OPEC supply has been relatively resilient over the course of the year. You also made the point that the base decline rate was less than 2% in your portfolio over the course of this year. How does that compare relative to history and as you look at 2016, how do you think your base decline rate looks like towards the midpoint of guidance?

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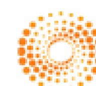

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John Watson - *Chevron Corporation - Chairman & CEO*

In general, the two are somewhat related. Our base decline has been good because we've operated very reliably and we've actually gotten quite efficient in our business. So we have been able to mitigate the declines. We've also flagged though that with a lower level of spending on base business, infill drilling in places like Bakersfield and elsewhere, you are going to see declines slightly higher, so that's why we've suggested that and we do expect to see that across the industry. The history has shown during downturns like this you can see an increase of a percent or two industrywide in that base decline. So that is -- I think that's clear.

In terms of the resiliency that we've seen in production, it's partly related to that, but, to me, it's been -- if you look at 2015, the impact of projects that were in flight has probably been more than we, as an industry, anticipated. So we're not the only ones with Jack/St. Malos and Bibiyanas and other projects that are under construction that are coming up.

Secondly, of course, you've had the impact of hedges in the unconventional business and the brief uptick that took place in the middle of 2015 in prices did allow some additional hedges. So you've still got a few hedges that are out there in the industry in 2016 that will allow some level of activity. But increasingly all that is wearing off as all the projects come online, as base business declines start to take over and as hedges are no longer available. So I think that's why you are seeing those volumes.

The other piece that I've consistently said has been underrepresented is the stress around the world, the stress on host governments, the stress on those government partners, national oil companies and others. And you've seen announcements that have been made because while we tend to think of living within our means as a function of forward capital spend; for host governments, living within their means is social, the choice between social spending and reinvesting in the business. And you've seen some of those choices play out in the guidance that's been given by host governments to national oil companies in certain countries.

So I think the cumulative weight of all this action will tend to bring things into balance. You still have potential sources of supply out there. Obviously, Iran is bringing volumes on, but I think the trend is inexorable.

Neil Mehta - *Goldman Sachs - Analyst*

Thanks.

Operator

Paul Sankey, Wolfe Research.

Paul Sankey - *Wolfe Research - Analyst*

John, you've part answered this question. My original question was going back to the volumes. It looks like quite a big percentage range, but, in barrels a day, it's only about 100,000 barrels a day for 2016. That's to say the 0% to 4% range of uncertainty. You part answered the question because you addressed the Partitioned Neutral Zone. Can you talk a bit about the variances in the other elements, so how much volume potentially variance is there in the startups, the divestments, the price effects and the spend levels because it feels like that 100,000 variance actually is not that wide? It seems big in percentage, but not so much in volume. Thanks.

John Watson - *Chevron Corporation - Chairman & CEO*

Yes, that's a very good observation. The range is widening and you've got multiple moving parts in the business. Let me see if I can give you a little bit of color. Just if you look at the difference between $30 and $60 per barrel, just on price effects, it can be over 100,000 barrels a day for that alone. And so you are right; there is a range there and what happens in a place like Indonesia, for example, for a given level of spend, and you have cost

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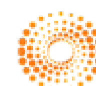

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barrel reimbursement, the lower the price, the more barrels you get. And these curves aren't all linear in different locations around the world. So there is a considerable variability from price alone.

If you think about rampup of production, I will give you an example on Gorgon. Gorgon, the three trains at Gorgon, our share is a little over 200,000 barrels a day. So if you think about each train as 65,000 to 70,000 barrels a day, and we've said that we expect production to commence within a few weeks. There's an industry curve -- there are industry averages around a rampup schedule that takes place over a period of months. To the extent you're at the high end of that range where you have a smooth startup, we have the well capacity. So you could have a very rapid rampup.

Our people in Australia don't know what they don't know and so we have taken more of an average approach. And to the extent you encounter something unusual, you can be on the downside of that. Our people at Angola LNG at this point are pretty gun shy because we've had challenges, but that's 60,000 barrels a day and we've said that we expect to be introducing gas later this quarter and to have cargoes in the second quarter, but there's variability around that and the rampup.

And so all of those -- and by the way, there's a second train at Gorgon as well later this year. So all of those can impact the pace of development. And then there's just the outright spend that's a function of rigs and activity. I think it's fair to say that if we keep seeing prices in the low $30s, we're going to drop rigs as the price moves on.

And then the last piece, and it's one that I won't provide much in the way of specifics, is really divestments. Because we've indicated, for example, that our shallow water, our shelf activities that we have packages for sale out there and those have some volumes attached to them and then there are some another potential assets in the upstream that are under consideration. But it really depends on getting value and the timing of those and so that is why you get a range. And you are correct; the range can be broader than indicated there. But I felt if I gave you any broader a range, you'd say this wasn't very helpful.

Paul Sankey - *Wolfe Research - Analyst*

Thank you.

Operator

Alastair Syme, Citi.

Alastair Syme - *Citigroup - Analyst*

John, can I just come back to your comment on the divestment market? You said it's a terrible market for selling assets; therefore I guess it must be a great market for buying. I appreciate the balance sheet constraints, but what leads you away from temptation?

John Watson - *Chevron Corporation - Chairman & CEO*

What leads me away from temptation? I know you've heard me over the years, but if I just -- just to ground everyone that's on the phone -- we've said over many years that we're in the resource business, it's declining and we'll replace resource through a combination of exploration, discovered resource participation and acquisitions and Chevron has done that over time.

Our growth position has been pretty good and so M&A hasn't been a particular priority for us. But we are mindful of the opportunities that are out there. I wouldn't want you to think our focus is anything other than getting the projects we have under construction and completing the work we have and ramping up the assets that we have because I think we've got a pretty nice business profile going forward.

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But we do need to look at what is out there and we're going to be value-driven, but there are opportunities that could present themselves in the current market, so we'll be mindful of that. But remember, we're trying to grow the dividend and invest for the long term here and so we're not driven -- we're not particularly transaction-driven at any period of time. I have time for one more question.

Operator

Asit Sen, CLSA.

Asit Sen - *Cowen & Co. - Analyst*

Thanks. Good morning. A quick one on shale, if I may, and tight oil. On slide 23 of the presentation, the year-over-year production bridge, shale and tight oil, is showing an impressive 44,000 barrels a day in 2015. What was the split between Permian and Vaca Muerta and also can we get a full-year 2015 shale and tight oil production for Chevron?

John Watson - *Chevron Corporation - Chairman & CEO*

The increase, of the 44,000, about two-thirds of it was Permian/Wolfcamp and the rest of it was between Argentina and some of our Appalachia activity. And in terms of what's forward-looking, I think I'm going to leave that to the security analyst meeting that we've got coming up in March where we'll give you a little deeper insight into our work in the Permian and kind of the range of rampup that we could see there. And we've done that every year and we will update you this year based on both the cost improvements that we've seen and then the realities of the price market that we're in. Okay.

Asit Sen - *Cowen & Co. - Analyst*

Thanks, John. And since we have you, one macro question on Iran. Any early thoughts on Iran rampup and are you involved in any discussion, as has been mentioned by your European peers?

John Watson - *Chevron Corporation - Chairman & CEO*

Well, I will answer the second question first, no. We're not able to do that so we don't. I would just say that we've got our hands pretty well full. We always look at opportunities when it's legal for us to do so around the world, but I don't have any particular insight into Iran. You have seen the range of speculation around their ability to ramp up production. Some have speculated that it's going to be a little harder than advertised, but I don't have any particular insight to offer you and perhaps others can help you with that.

Okay, I would like to thank all of you for being on the call today. We appreciate your interest in our Company and your participation. We look forward to seeing you at our March meeting in New York. Thank you.

Operator

Ladies and gentlemen, this concludes Chevron's fourth-quarter 2015 earnings conference (technical difficulty).

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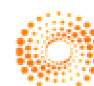

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