# 1Q18 Earnings Conference Call Edited Transcript

Friday, April 27, 2018

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

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*This transcript has been edited by Chevron Corporation. It is generally consistent with the original conference call transcript. For a replay of the earnings call for the first quarter of 2018, please listen to the webcast presentation posted on chevron.com under the headings "Investors," "Events & Presentations."*

## Transcript

**Operator:**
Good morning. My name is Jonathan and I will be your conference facilitator today. Welcome to Chevron's first-quarter 2018 earnings conference call. (Operator Instructions). As a reminder, this conference call is being recorded. I will now turn the conference call over to the Vice President and Chief Financial Officer of Chevron Corporation, Ms. Pat Yarrington. Please go ahead.

**Pat Yarrington (Vice President and Chief Financial Officer, Chevron Corporation):**
Thank you, Jonathan. Welcome to Chevron's first-quarter earnings conference call and webcast. On the call with me today is Mark Nelson, Vice President, Midstream, Strategy & Policy. Also joining us on the call are Frank Mount and Wayne Borduin, who are currently transitioning in the role of General Manager of Investor Relations. We will 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 here on slide 2.

Turning to slide 3, an overview of our financial performance. The Company's first-quarter earnings were $3.6 billion, or $1.90 per diluted share. Earnings excluding foreign exchange and special items were also $3.6 billion. A reconciliation of special items and foreign exchange and other non-GAAP measures can be found in an appendix to this presentation.

This is our strongest earnings result since the third quarter of 2014 when Brent prices were above $100. For the current quarter, Brent prices averaged $67 per barrel. Cash flow from operations for the quarter was $5 billion. Excluding working capital effects, cash flow from operations was $7.1 billion.

At quarter end debt balances stood at approximately $40 billion, which resulted in a headline debt ratio of 20.9% and a net debt ratio of 18.1%. During the first quarter we paid $2.1 billion in dividends. We currently yield 3.6%.

Turning to slide 4, we are on track to deliver on our 2018 cash generation guidance from our recent analyst meeting. Cash flow from operations, excluding working capital effects, grew to $7.1 billion. Positive impacts from strong realizations and high-margin volume growth were partially offset by equity affiliate dividends that were about $1 billion lower than equity affiliate earnings.

Cash capital expenditures for the quarter were $3 billion, approximately $300 million or 10% below first quarter 2017, as we continue to complete our major capital projects under construction and drive improved capital efficiency across our portfolio. The result, free cash flow, excluding working capital effects, was $4.2 billion, approximately $2.5 billion higher than the average quarter in 2017.

Asset sale proceeds within the quarter were minimal. However, with the closing in April of the Elk Hills transaction and the anticipated closing of the sale of our Southern Africa downstream business later this year, we remain on track for asset sale proceeds of $1 billion to $3 billion in 2018.

Turning to slide 5. As many of you are aware, working capital effects impact our business unevenly throughout the year. These impacts are to a large degree transitory. Because of this uneven pattern by quarter, many of you exclude working capital impacts from your models. However, while uneven by quarter, our pattern is fairly consistent year-to-year.

The chart, drawn from this decade's average working capital impacts, demonstrates the pattern. Normally, working capital is a cash penalty in the first and second quarters followed by a cash benefit in the third and fourth quarters. The variation has at times been 2 to 3 times the quarterly average as shown. This rhythm is fairly consistent and mainly results from seasonal inventory builds and draws, as well as the timing of supplier, JV partner and tax payments.

We anticipate this year's pattern to be no different. If price levels generally hold where they are today, we expect a majority of the $2.1 billion of working capital consumed during the first quarter to be released throughout the remainder of the year. The residual is expected to be mostly receivables related to both higher prices and higher production compared to 2017.

Turning to slide 6, first-quarter 2018 results were approximately $950 million higher than first quarter 2017. Special items, primarily the absence of a first-quarter 2017 gain from the sale of our Indonesian geothermal assets, coupled with a first-quarter 2018 US upstream asset impairment, decreased earnings by $720 million between periods. A swing in foreign exchange impacts increased earnings between the periods by $370 million.

Upstream earnings, excluding special items and foreign exchange, increased around $2.2 billion between the periods, mainly on improved realizations and higher liftings.

Downstream earnings excluding special items and foreign exchange decreased by about $255 million mostly due to an unfavorable swing in timing effects, and lower volumes largely from the sale of our Canadian assets.

The variance in the Other segment was primarily the result of the absence of prior-year's favorable corporate tax items. As we indicated previously, our guidance for the Other segment is $2.4 billion in annual net charges, though quarterly results are likely to be non-ratable.

Turning now to slide 7, a beautiful chart if I do say so myself. This compares results for the first quarter of 2018 with fourth quarter of 2017. First-quarter results were approximately $530 million higher than the fourth quarter. Special items, mainly from the absence of the fourth-quarter 2017 US tax reform gain, decreased earnings between periods by approximately $2 billion, while a swing in foreign exchange impacts increased earnings by $225 million between the periods.

Upstream results, excluding special items and foreign exchange, increased by around $1.4 billion between quarters, primarily reflecting higher realizations and liftings along with lower depreciation and operating expenses.

Downstream earnings, excluding special items and foreign exchange, improved by about $540 million reflecting higher earnings from CPChem, mainly due to the absence of fourth quarter 2017 hurricane impacts, along with improved refining and marketing margins.

The variance in the Other segment largely reflects lower corporate charges and a favorable swing in corporate tax items between quarters.

Turning now to slide 8, first-quarter production was 2.852 million barrels a day, an increase of 4.5% over average 2017 production and within our guidance range for 2018. This production level represents an all-time quarterly high for the

Company. Growth is expected to continue during 2018 with Wheatstone Train 2 coming online, major capital projects such as Wheatstone, Hebron and Stampede ramping up, and continued growth in our shale and tight assets.

During the quarter, the impact of asset sales on production was negligible. In the second quarter, we forecast a quarterly asset sale impact of around 15,000 barrels per day mainly from our recent Elk Hills and Democratic Republic of the Congo transactions. We will also start our planned turnaround activity in the second quarter. Our full-year production guidance remains unchanged at 4% to 7% growth over 2017 excluding the impact of asset sales.

On slide 9, first-quarter 2018 production was an increase of 176,000 barrels a day or 6.6% from first quarter 2017. Major capital projects increased production by 228,000 barrels a day as we started and ramped up multiple projects including Gorgon and Wheatstone. Shale and tight production increased 101,000 barrels a day mainly due to the growth in the Midland and Delaware basins in the Permian.

Base declines, net of production from new wells, such as those in the Gulf of Mexico and Nigeria, were 39,000 barrels a day. The impact of 2017 asset sales, mainly in the US Midcontinent, Gulf of Mexico and South Natuna Sea, reduced production by 61,000 barrels a day. Entitlement effects reduced production by 50,000 barrels a day as rising prices and lower spend reduced cost recovery barrels.

Turning to slide 10. Gorgon and Wheatstone delivered strong and reliable performance in the first quarter. First quarter net production was 202,000 barrels of oil equivalent per day from Gorgon and 67,000 barrels of oil equivalent per day from Wheatstone. We shipped 69 LNG and 4 condensate cargoes and were able to take advantage of rising oil-linked prices as well as strong Asia LNG spot prices, which averaged over $10 per MMBTU for the quarter.

We continue to fine-tune the plants to enhance reliability and boost capacity. These efforts are yielding favorable results. Gorgon first-quarter production is more than 5% higher than our previous best quarter, and Wheatstone Train 1 has been running well.

We have a planned pit-stop on Gorgon Train 2 next month to replicate performance improvement modifications that we have made in the other two trains. And work on Wheatstone Train 2 is progressing well and commissioning activities are ongoing. The warm end is expected to be ready for start up shortly and we are expecting to begin LNG production this quarter. Domgas is expected to start up late in the third quarter.

Turning to the Permian, Permian shale and tight production in the first quarter was up about 100,000 barrels a day, or 65% relative to the same quarter last year. Looking forward, we forecast Permian unconventional growth of 30% to 40% annually through 2020. All of this is premised on running 20 Company operated and approximately 9 net rigs on NOJV properties by year-end.

In March we guided to 2% to 3% annual growth from our base plus shale and tight business through 2022 at $9 billion to $10 billion of annual capital spend. We are currently running 17 rigs and expect to stand up our 18th Company operated rig next month.

We also continue creating value through land transactions. We executed 9 deals, swapping approximately 25,000 acres in the first quarter, and we have several others under negotiation. As you know, these swaps enable high value longer laterals.

We often get questions about our Permian takeaway capacity as well as other questions on the industry macro environment. Mark heads up our midstream and strategy groups and will provide some additional insights. Over to you Mark.

**Mark Nelson (Vice President, Midstream, Strategy and Policy, Chevron Corporation):**
Thanks, Pat. As Pat mentioned, we get questions these days about Permian-related differentials, the long-term oil market and LNG supply and demand. So, turning to slide 12, let's continue with the Permian story, where we believe optimizing the value chain from wellhead to customer differentiates Chevron from many in the business.

As you know, our advantage starts with our land position and our factory model and continues with the market knowledge of each barrel's value at any point in time and ends with the ability to appropriately place those barrels.

For example, recent crude differentials in the Midland basin have widened. And we've secured flow and preserved margin by proactively procuring enough capacity to move product to multiple market centers, negotiating highly competitive transportation rates, batching and blending to meet market demands and avoid price discounts, and by accessing the best world markets for each barrel with our export capabilities. Simply said, our goal is to maximize the return on every Permian molecule.

Another question that is often asked is reflected on slide 13, and that is what role does oil play in meeting the world's growing energy demand in the decades to come. In developing our point of view, as you would expect, we use detailed internal and external analysis to evaluate supply/demand scenarios and the associated opportunities and risks in our business.

Our macro liquids view is similar to a number of independent assessments and we are showing one of these assessments, the IEA New Policies Scenario, in the upper right. We believe that oil demand will continue to grow for the foreseeable future and the need for incremental supply continues to exist in any realistic scenario. Reinforcing this view, today's liquids demand continues to be in the higher end of most independent forecasts.

The chart on the bottom right illustrates another of our points of view. We believe in a longer, flatter supply curve. Despite the recent run-up in prices we believe capital discipline, cost management and market signposts will always matter. And we are well positioned to win in any environment given our advantaged portfolio.

Turning to page 14 and the macro LNG view, this graph reflects the latest LNG demand projections from Wood Mackenzie with their supply forecasts, highlighting that the LNG market is becoming oversupplied in the short-term as new projects continue to ramp up in both the Pacific and Atlantic basins.

North Asian LNG demand, however, especially in China, was stronger last winter than the market anticipated. In fact, 2017 Chinese gas demand was up 15% year on year with LNG imports up 46%. While this growth rate may moderate, the demand drivers appear mostly sustainable with coal to gas switching in residential and industrial applications mandated by the Chinese government to reduce air pollution.

So, the LNG market should rebalance with a supply gap expected to open before the middle of the next decade. And this is where Gorgon and Wheatstone capacity creep and debottlenecking opportunities will fit very nicely. Only the most cost competitive projects will be able to move forward in this space and we will be very disciplined with our investment and will fund only those projects that will generate top returns. With that, I will turn it back over to you, Pat.

**Pat Yarrington:**
All right, let me close this out here. On slide 15, I'd like to reiterate some of our key messages from our recent security analyst meeting and to demonstrate how we are delivering on those commitments.

First, our cash generation improvement trend continues and is in line with previous guidance. In the first quarter 2018, cash flow from operations, excluding working capital, was $7.1 billion, well in excess of our cash capital expenditures and quarterly dividend commitment.

Second, we are executing a disciplined C&E program, allocating capital to the highest return projects that compete in our portfolio.

Third, we grew production by 4.5% from full-year 2017 to 2.85 million barrels a day, achieving an all-time quarterly high for the Company and trending well within guidance.

Fourth, we have an advantaged portfolio in the Permian basin that is delivering on all cylinders. Year on year we added 100,000 barrels per day of shale and tight production here, trending ahead of recent guidance. And we are leveraging our midstream business to maximize the returns on every molecule.

And lastly but very importantly, we increased the dividend per share by 4%, delivering on our number one financial priority to shareholders.

So that concludes our prepared remarks and Mark and I are now ready to take your questions. Please keep in mind that we have a full queue and try to limit yourself to one question and one follow-up, if necessary. And we will certainly do our best to try to get all of your questions answered. Jonathan, go ahead and open the lines, please.

**Operator:**
(Operator Instructions) Jason Gammel, Jefferies.

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**Jason Gammel (Jefferies):**
Pat, really great quarter just in terms of demonstrating the cash generation potential that Chevron has moving forward. And so, I guess we actually get to the high quality question about what you would potentially do with discretionary cash flow.

In the capital program it's obviously very disciplined; it's within a fairly tight range. The balance sheet is about where you want it to be. That kind of leads us to share buybacks and what would you potentially need to see to begin a repurchase program?

**Pat Yarrington:**
Jason, thanks for the question and thanks for acknowledging the good quarter. At this particular point in time our messaging around share repurchases really hasn't changed from what we said just a few short weeks ago. At that time we said we wanted to see the cash flow actually materialize and we said we wanted to see prices sustained a little bit.

We do fundamentally believe that [buybacks] are our fourth priority and dividend growth is number one, putting cash back into the business is number two, the balance sheet is number three. Once we've satisfied those other commitments, [surplus cash] can be used for a share repurchase program.

Buybacks are part of the value proposition that we have offered shareholders in the past. As you know, 10 out of the last 14 years we have had share repurchases and we only stopped them during the financial crisis and in the last three years when oil prices collapsed. So, a buyback program is very much a part of our thinking these days, and when we re-inaugurate it, if the circumstances permit, we want to be able to do so in a sustainable fashion.

**Jason Gammel:**
I appreciate those comments, Pat. Maybe just as my follow-up, one for Mark. Mark, you mentioned that the debottlenecking at Gorgon and Wheatstone would be towards the low end of the cost curve in the LNG supply stack. Do you see anything else in the portfolio that would potentially be competitive? And I guess I might even be referring specifically to expansion trains at either one of those projects.

**Mark Nelson:**
Great question, Jason. I think from an Asia LNG perspective, the most exciting thing for us is the amount of demand that we are seeing in that part of the world. It's probably premature for us to be thinking about additional trains as we have considerable opportunity [in the existing trains] from both ramp-up and debottlenecking.

Having spent much of my career around refineries, I wouldn't underestimate the opportunity there and the size of the prize. So, we are focused on ramp up, efficient operation and then building our way into leveraging the existing infrastructure in Australia. Thanks for the question.

**Jason Gammel:**
Okay, a systematic approach. Thanks.

**Operator:**
Paul Cheng, Barclays.

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**Paul Cheng (Barclays):**
I have two questions, I think both of them for Mark. How much is the oil production from Permian that you are selling inside Permian in the first quarter? And what is your takeaway capacity for the next couple years? Have you already locked in sufficient according to your current growth plan?

And also we have heard some people talking about gas handling in the basin may start to become an issue. I want to see what is your view on that. So that's the first one.

May as well ask the second one on the LNG market. Want to see whether you guys have been actively marketing or trying to market additional gas. And what's the conversation with the customer this day and what are the bid/ask differences, if there is any?

**Mark Nelson:**
Thanks, Paul. I'll address your Permian takeaway capacity questions at the high level, as you can imagine. We are very comfortable with our off-take positions today – and [that comfort] goes all the way back to our advantaged portfolio and, maybe equally importantly, our disciplined development strategy.

[Our offtake strategy] allows us to keep up with our production and we do that by partnering with our strong infrastructure companies. We get highly competitive rates and then [our partners] execute on infrastructure projects. These types of projects, quite frankly, might not compete in our portfolio. We view this as activating our value chain at the lowest possible capital investment, ensuring a returns [and capital discipline] driven mentality. We will hit moments of tightness and length, but we like our position moving forward.

**Paul Cheng:**

How about gas handling?

**Mark Nelson:**
From a gas perspective all three streams – oil, gas and NGLs – all must flow out of the Permian. And as you know, the oil tends to drive the economics, but we have flow assurance across all three streams today. And again, we are comfortable with our position looking forward.

**Paul Cheng:**
But do you believe the basin as a whole will you have a problem, if not Chevron?

**Mark Nelson:**
From a basin perspective, as we have all read the news, you can see some competitors who perhaps don't have either our discipline or our advantaged portfolio, experiencing problems. But for the Permian, in general, we see that region solving those type of problems and only having temporal challenges.

On your LNG marketing question, as you know, we've chosen to do business with some of the largest, most reliable customers in that part of the world [Asia] and we have long-term contracts. Natural discussions go on about wanting reliability and the best sustainable price as we would have expected.

So, we are seeing customers continuing to like the reliability that we've been able to deliver and our flexibility in helping them with some of their operating challenges. From our perspective we see those relationships remaining very strong.

**Operator:**
Neil Mehta, Goldman Sachs.

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**Neil Mehta (Goldman Sachs):**
Congrats on a good quarter. My first question is just related to cost inflation across the portfolio. If you're seeing any early signs of costs increasing and any comments specifically international versus US.

**Pat Yarrington:**
By and large the more material cost pressures that we have seen have been limited to the Permian and the US unconventional market. In the rest of the world, we are beginning to see some cost pressures but not of the same [magnitude]. It is really more that future rates of cost decline in the rest of the world probably have stopped. You are probably leveling out there, and you're beginning to see a little tension. Whereas in the Permian, you are actually beginning to see cost increases.

I would like to take a moment though and acknowledge that we are largely protected in our Permian cost structure this year because of the contracting strategies that we have followed. And this is, again, one of the benefits of having a 20-rig program that has been long-planned and well disciplined.

It has allowed us to line out all of the services and contract arrangements that we have needed, well in advance. We have about two-thirds of our spending this year that's either occurring at known prices or index costs or have cost containment capabilities built into them.

**Neil Mehta:**

The follow-up question is just how do you get comfortable as a management team that the Company is not under investing? One of your peers is out taking a much more aggressive approach around capital spend over the next couple of years. And I guess one of the things that we hear when people push back on our view on the Company is that the fear is that you are in harvest mode right now, but we are going to go into early next decade, and what are the projects that will drive the next wedge of ultimately cash flow growth that enables you to replenish the portfolio and offset decline. So, I wanted you to respond to that narrative because it's out there in the market.

**Pat Yarrington:**
The primary thing is we are not after volume growth for volume growth's sake. We are after growing value and we have a tremendous portfolio. We showed a slide back in March that had 40 years of 2P resource development opportunity. It's very attractive resource that can be developed with a relatively modest capital investment program.

So, we feel very comfortable about the portfolio that we have. Specifically, we have got line of sight in the unconventional growth between now and 2022. And then in 2022 we see the TCO FGP/WPMP project coming online. So, for the next several years we've got line of sight on very good growth and, frankly, a portfolio that allows growth beyond that.

**Operator:**
Doug Leggate, Bank of America.

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**Doug Leggate (Bank of America Merrill Lynch):**
So I will take my two as well if I may, Pat. I'm afraid I'm going to open up with a buyback question again, just go back to that very quickly. Just philosophically, I'm guessing buybacks are not something you'd want to chop around quarter to quarter. So, I guess my question is what level of -- what would management need to see to be comfortable to commence a buyback program, assuming you would need that to be ratable?

And I'm thinking about level of cash on the balance sheet, whether quarter to quarter what we're seeing is a function of cash tax payments and interest charges and so on. At what point would you be comfortable to say, okay, now we are ready to get going with this?

**Pat Yarrington:**
I don't want to put a quantification at this point because I don't want to get ahead of the internal thinking. But clearly, we would have to have sustainability and a view of surplus cash generation beyond the $18 billion to $20 billion capital program that we want to fund and beyond the growth rate that we anticipate around dividends. As you say, our balance sheet is hovering in a very reasonable place at the moment.

We have to have a view of sustainability. When I say sustainability I don't just mean this quarter to next quarter to maybe the third quarter, but I really mean over a series of years. We would like to be able to [dollar cost] average the share repurchase program because we have some shareholders who are not in favor of share repurchases [primarily due to] the concept that you only [execute] them when you have the cash available, and when you have the cash available your stock price is high. The way that we can mitigate that is by having a very sustainable share repurchase program.

It really comes down to the medium-term cash generation capability of the firm and expectations around that.

**Doug Leggate:**
I appreciate that and so that makes a lot of sense. I'm guessing the dividend takes a priority, as you've said previously.

**Pat Yarrington:**
Absolutely.

**Doug Leggate:**
So, my follow-up is just a quick one. Obviously you had a tremendous quarter relative to what the Street was expecting. And when you look through the presentation there were a couple of comments in there about liftings and other, both US and international. Can you just talk a little bit about what that was? Because were there some favorable timing issues in terms of sales versus production? And I'll leave it there. Thanks.

**Pat Yarrington:**
Actually, for the first quarter we were slightly under lifted. So, I think it's just a variance between the position of this quarter versus the prior quarter – very modest there. Part of the earnings beat that you might be highlighting really relates to depreciation. If you'll recall back [to 4Q17], we had a 155% reserve replacement ratio in 2017 and that contributes to a lower DD&A rate per barrel.

**Doug Leggate:**
That makes a lot of sense. Thanks, everybody.

**Operator:**
Phil Gresh, JP Morgan.

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**Phil Gresh (JP Morgan):**
First question is a bit of a follow-up to Neil's just around the growth outlook through 2025. You do have some capital spending that will be rolling off after this year, Wheatstone and some other things.

How do you think about where that wedge of -- assuming you're going to keep a CapEx cap in place through 2020 as promised, how do you think about where that extra cash flow might go between, say, adding more rigs in the Permian versus something like Gulf of Mexico where a peer of yours just sanctioned a project with a $35 breakeven proposition?

**Pat Yarrington:**
We really feel good about sticking to the 20 rig program in the Permian. We think there is still opportunity there to lower development costs, lower operating costs, and maximize revenue streams. Those will be the primary areas of focus for us out of that particular asset.

If I think about other areas where there could be small incremental money spent, it would be for appraisal and pre-FEED work in the Gulf of Mexico. We have four areas of potential interest – Anchor, Tigris, Ballymore and Whale – where we would look to do further evaluation.

I should also mention that the development activity around shales other than Permian – the Marcellus, Kaybob Duvernay, and Vaca Muerta – that could likely pick up additional capital investment.

Can I just go back and mention one thing with regard to Deepwater so that people don't misinterpret what I'm saying? We do have multiple opportunities that we can evaluate, but we would be very disciplined and very ratable, ensuring the pacing of any development [program] that we would do there.

**Phil Gresh:**
Right, so the commitment to the $20 billion cap. Just one question on the quarter. One of your peers on cash flows reported a flip in their deferred tax from a headwind to a tailwind at these higher price levels. I was just wondering, you mentioned the $1 billion headwind in the quarter from affiliates' earnings versus distributions, which is about half of the headwind you're expecting for the entire year. Just curious if deferred tax played out as you expected.

**Pat Yarrington:**
Directionally, deferred tax played out as we were expecting. It is influenced, as you might expect, by the timing of when you place assets in service and when you get bonus depreciation.

In regard to the overall set of headwinds, I had given guidance back in March of $2.5 billion to $3.5 billion as the headwinds for the year. But I said at the time that we thought working capital would be nil.

If prices hold where they are today there will be a little bit of a penalty in working capital, as I mentioned in my prepared remarks. So, you may want to think towards the higher end of that range that I gave you. I will say this is very hard for us to predict though, and so I do reserve the right every quarter to come back and give you an update.

**Operator:**
Guy Baber, Simmons & Company.

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**Guy Baber (Simmons & Company):**
Pat, I wanted to stick on the cash flow here a little bit, but the $7.1 billion in pre-work working capital cash flow seemed to be better than the framework you all gave at the Analyst Day when we adjust for commodity price. And I understand that 1Q is typically weaker given downstream seasonality and the affiliate dividend timing.

So, I just wanted to confirm that outperformance versus the internal plan and was wondering if you could isolate some of the key drivers of that better than expected cash flow. What sticks out to you all internally?

And then with Brent at these higher levels here, just as a check, do the general sensitivities you all have given still hold or do we need to rethink those a little bit?

**Pat Yarrington:**
Yes, Guy. The first quarter was really a very clean quarter and it's a good basis for you to build into your models going forward. I think we are running a little bit ahead on the guidance that we gave, but the first quarter is a good benchmark. The sensitivity that we had given for $1 of improvement for Brent on cash flow is about $450 million – on earnings it's a little less than that.

**Guy Baber:**
That's helpful. Thanks. And then I had a follow-up for Mark. Appreciate the view on the macro oil landscape here. Can you just talk a little bit maybe about what your base case expectations are from a high level when you think about this decline in long cycle capital investment that's taken place for the industry over the last few years?

So from 2013 to 2018 we've tallied up about 2 million barrels a day of major project capacity that started up per year on average and then that drops to around only 1 million barrels a day from 2019 to 2022 or so.

So is the Chevron view -- do you see something similar? Do you see a supply gap emerging for the industry on the oil side over the next few years? And when might you see that beginning to show up in supply/demand balances?

**Mark Nelson:**
Thanks, Guy. So first, from a short-term perspective, we've hit a space where the markets rebalanced. That's on the back of some fairly solid demand, in fact demand that has surprised most folks to the upside. [Additionally we’ve had] effective curtailment and planned or unplanned declines in certain countries around the world, on top of geopolitics. So that's all short-term price support for today.

But we’re not designing our business on these kinds of prices. We are driving our business on a lower for longer assumption. We have moved from a time where we had production coming from large investments [to a time where more production comes from] short cycle activity, and as an industry we do not forecast [the impact of that] as well as we do for the large projects.

So, we have a perpetual supply gap – that's the industry we are in. But I would expect prices to stay in a fairly tight range over time and we're going to design our business to deal with the lower end of that assumed range.

**Operator:** Blake Fernandez, Howard Weil.

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**Blake Fernandez (Scotia Howard Weil):**
Frank, I presume this is your last call. So thanks for all the help and good luck to you.

**Frank Mount (General Manager, Investor Relations, Chevron Corporation):**
Thanks, Blake.

**Blake Fernandez:**
Pat, I wanted to go back -- you had mentioned the equity affiliate headwinds and you kind of addressed that. I guess what I was thinking specifically is on TCO. Is there an oil price level that you would actually begin to start getting distribution from that?

**Pat Yarrington:**
Actually, Blake, we do still get distributions. [A TCO distribution] really is a determination that's made by the [TCO] partnership council. It is not solely within Chevron's control. The partnership council looks at what are the requirements for funding the project that's under development. They look at what cash generation has been. They look at what the partners' dividend interests are and will [consider this in] negotiating a dividend declaration.

They review that multiple times during the course of the year and they can do one dividend a year or they can do a couple dividends a year. It's really the partnership council’s [decision].

**Blake Fernandez:**
Okay, so it sounds like there is some flexibility and potentially could increase dependent on what oil prices do.

**Pat Yarrington:**
There is [flexibility]. We had a dividend last year. Expectations are for a dividend this year as well. But, it's not anything that we control uniquely within Chevron.

**Blake Fernandez:**

Okay. The second question, I'll just take advantage of Mark being on the call. But the 25,000 acres in the Permian that were transacted, it sounds like it was a swap. So, I just wanted to confirm that your acreage position hasn't really changed overall. But I guess I was under the impression that a lot of those transactions had already come to fruition and you all were kind of done. So, are you still in the process of marketing and coring up?

**Mark Nelson:**
You are right, mostly swaps were discussed in the materials that you saw. And "never done" would be my answer in regard to potentially looking for ways to get longer laterals in the marketplace. From our perspective we won't stop looking and we believe [coring up acreage to enable longer laterals has] created considerable value within the disciplined execution program that we talked about. In fact, I would expect more transactions in the future.

**Pat Yarrington:**
And I would just add, swaps are often hard to put together because you're trying to [negotiate to a point where] both parties optimize. So, they may take a little bit longer duration to come to fruition.

**Operator:**
Ryan Todd, Deutsche Bank.

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**Ryan Todd (Deutsche Bank):**
Maybe a first quick one on the Permian. Congrats on a great quarter. I think you guys may have blown out the Midland differential all by yourselves there. Can you talk a little bit about -- obviously there are some timing issues here -- but what drove some of the drivers of the particularly strong quarter-on-quarter performance in the Permian, whether it was from particular areas, number of completions? And how to think about the trajectory of that going forward?

**Pat Yarrington:**
Sure, Ryan. Basically we had a large increase in the quarter because we put several wells on production at the very tail end of 2017. We also saw increased NOJV activity. But a point that I would stress is that the production increases that we show can be lumpy. So, I wouldn't necessarily have you think that the increase from fourth to first quarter is something that would be repeatable or ratable.

**Ryan Todd:**
And then maybe -- we haven't talked about IMO2020. Can you maybe talk a little bit about how you think about your relative positioning into it? And whether you would envision -- how you think about the attractiveness of any potential investments to take advantage of the situation.

**Pat Yarrington:**
Yes, I think the short answer is really that Chevron's position is pretty well placed. We have complex refineries and we produce more distillates than fuel oil. We don't really produce much fuel oil in the US. We do have some exposure in Asia.

But from a refining capacity standpoint, and the fact that we've got midstream and trading capacity that we can optimize during the course of what we think will be an unstable market and before it rationalizes, we think we're in a pretty good position. It's a little hard to understand exactly what the impacts will be, so we continue to monitor the potential industry response and what actions will be taken by the various parties.

It's an unusual regulation in the sense that there's no single actor that's tagged with compliance. There's multiple ways that compliance can occur. It can occur on the part of the shippers or it can occur on the part of the refiners. So, it's a little hard to understand exactly how compliance will take place.

**Ryan Todd:**
But at this point you guys wouldn't envision deploying any meaningful capital to the kind of driven projects?

**Pat Yarrington:**
No, we would not.

**Operator:**
Roger Read, Wells Fargo.

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**Roger Read (Wells Fargo):**
Congrats on the quarter and, Frank, enjoy the operational side of life.

**Frank Mount:**
Thanks, Roger.

**Roger Read:**
Jumping in, since I've got you -- Mark and Pat on here. As we think about your ability to capture whatever differential exists between the Gulf Coast and the Permian, how should we think about that as flowing through your business?

The reason I'm asking, Pat, is thinking about is it a realization and so we'll see it in the upstream part there, or does it flow through somewhere else? Just trying to maybe head off at the past concerns that in coming quarters realizations could look weak, but the overall number is fine. So how does it flow through on your upstream business?

**Pat Yarrington:**
It would come through the upstream realization.

**Roger Read:**
Okay, so whether it's commercial pipeline or whatever other capture, it'll all stay on the upstream side?

**Pat Yarrington:**
That's correct.

**Roger Read:**
Okay. And then switching gears just since you put the chart up there with the longer flatter supply curve. You talked a little bit earlier about some of the Gulf of Mexico Deepwater opportunities. Pricewise it looks like Deepwater non-OPEC would be in the money here. So how do you think about when you're comfortable moving forward with an FID as you complete your studies on those various projects?

**Mark Nelson:**
Pat, I will start. From our perspective, it's about priorities and capital allocation. The good news of having a portfolio that's so strong with unconventionals that are short cycle, high return investments is that it forces all of the other projects to compete to be brought forward [for capital allocation].

And I've heard Jay Johnson say numerous times concerning the idea of changing outcomes and improving returns – "when you target a group of engineers on making a project have higher economics, it's amazing what can be developed for us to consider [for investment]." Pat, would you like to add to that?

**Pat Yarrington:**
Yes. The first opportunity we've got [in the deepwater] is infill drilling and keeping existing facilities fully loaded. And to the extent that there's a new [deepwater] reservoir found that can tie into existing facilities, the economics there would be stronger.

We are working to get the development costs of greenfield [projects] down significantly. Standardizing on surface facilities, design one build many, longer subsea laterals, standardizing along with the industry on subsea kit. We are also in a mode now where we would be designing the production facilities perhaps not [to accommodate] peak production but for the best capital efficiency.

There's an awful lot that we think we can do in the deepwater area to continue to get development costs down. But we have to see that actually materialize before we would be in a position to take an FID.

We have a number of opportunities that are being evaluated at this particular point in time and I can't really say which one will rise to the top first. But it's nice to have activity underway there and we're making good progress.

**Operator:**
Theepan Jothilingam (Exane BNP Paribas).

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**Theepan Jothilingam (Exane BNP Paribas):**
Just one question actually, coming back to the LNG performance. Could you talk about, just in terms of production both at Wheatstone and Gorgon, how sustainable is it to produce above that nameplate capacity?

And just a follow-up question to that would be -- could you remind us in terms of the volumes from those two projects, is all of it on long-term contracts or have there been some opportunities to, let's say, optimize some of that volume through pricing arbitrage?

**Pat Yarrington:**
We have been spending time and effort [on reliability] and taking these pit stops in order to improve the reliability, for example, at Gorgon. We do think there's opportunity over time to expand capacity through debottlenecks, gaining capacity and efficiency.

So we are willing to make investments now achieve a certain reliability and efficiency today. Longer-term, I think there are debottlenecking opportunities that will be available. In terms of the contracts on Gorgon and Wheatstone, we are about 90% committed under long-term contracts.

**Theepan Jothilingam:**
Was it a particularly good quarter in terms of that remaining 10% or (multiple speakers) in terms of arbitrage or trading profit?

**Pat Yarrington:**

No, it was a good quarter in terms of spot cargoes. Asian spot prices on average were above $10 and so it was a very good quarter from a spot standpoint.

**Mark Nelson:**
But remember that's only 10% of our production.

**Theepan Jothilingam:**
Yes, that's helpful. Thank you all and best of luck, Frank.

**Frank Mount:**
Thanks, appreciate it very much.

**Operator:**
Sam Margolin, Cowen & Company.

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**Sam Margolin (Cowen & Company):**
Good morning. Frank, I know you like to keep the call tight, but I would be remiss if I didn't say thanks and congrats as well. My first question is just a mechanics question around the affiliates. I recall in the past some conversations that there would be a co-lending program that would functionally exclude affiliate spending from what we might think about as operating cash flow. Is that still a factor or has the Chevron level found more efficient uses of capital than that?

**Pat Yarrington:**
Yes, the co-lending is really specific to the Tengiz project and we had co-lending previously. Right now, there is no requirement for any co-lending. With prices where they are today, if they stay at [the current] level, it's not clear whether there will be a co-lending requirement during the remainder of 2018. It is something you should always have in the back of your mind, but with prices at this level, it’s possible that it won't materialize for 2018.

This project was inaugurated back in a lower-price environment. And the point of the co-lending was to assure that all partners would be able to fund their share of the project. So, [co-lending] really has been dependent upon what prices have been and the ramp-up of spend on the project. 2018 and 2019 will be the peak years of spending for TCO's [FGP/WPMP] project, but 2018 so far has been a strong price environment.

**Sam Margolin:**
I see, okay. Thanks for the clarification. And then my follow-up is just -- I guess it's for both Mark and Pat. The comments about thinking critically on Permian takeaway I think resonate with the market because it's come up among a lot of the independents.

And given your view on LNG markets globally, how do you see US LNG maybe playing a role, particularly with respect to the areas in the Permian more in the West Texas part of the Delaware basin that are a little gassier, if not is an operator maybe as a partner or a customer of that solution?

**Mark Nelson:**
Well, from a macro perspective, given some of the [natural gas supply] length that will occur in the region, you'll start to see people consider further [LNG] investments in the Gulf. And the Gulf Coast has to compete with landed prices in Asia.

From our perspective, we've got an advantaged position supplying Asian [LNG demand] growth from our base assets in Gorgon and Wheatstone and we'll watch what others do. We certainly have other LNG options around the world, but all of it has to compete with landed price in Asia.

**Operator:**
Rob West, Redburn.

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**Rob West (Redburn):**
I'd like to go back to something you said earlier, Pat, which was about the surge in production in the Permian over the quarter. You attribute it to more well completions. And the follow-up that put in my mind was can you say whether over the quarter you drew down your inventory of DUCs or whether they were still building just in terms of trying to assess the sustainability of that growth rate? That's the first one. I've got a follow-up. Thanks.

**Pat Yarrington:**
Yes, I think there was a modest reduction in DUCs during the quarter.

**Rob West:**
Okay. Thank you. The second one is about Indonesia where I know you have got an early stage gas project in the pipe. And one of your peers sanctioned a gas project that is this week I think, so topical. And I was wondering, so I think that particular project you have, the holdup is really on license extensions. Is that right? If so, what's the timing on resolving those? And if it's not right, can you say anything about the other bottlenecks you still need to overcome there?

**Pat Yarrington:**
It's a good question. Our project is Gendalo-Gehem. We do have a new development concept – or we're reworking the development concept – trying to decapitalize it. Work has been underway on that effort more than a year and it is progressing.

The contract extensions are also an element here. We've delivered expressions of interest to the government of Indonesia with regard to contract extensions. We want to make sure that it's a long-lived project and that the combination of the development concept and the fiscal terms provides a high return project.

**Rob West:**
Okay. Thank you for those details.

**Pat Yarrington:**
Okay, I think that closes us off here. I would like to thank everybody on the call today. We certainly appreciate your interest in Chevron and everyone's participation. Jonathan, back to you.

**Operator:**
Ladies and gentlemen, this concludes Chevron's first-quarter 2018 earnings conference call. You may now disconnect.