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CVX - Q4 2011 CHEVRON EARNINGS CONFERENCE CALL

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OVERVIEW:

CVX reported 2011 earnings of $27b or $13.44 per diluted share and 4Q11 earnings of $5.1b or $2.58 per diluted share.

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CORPORATE PARTICIPANTS

John Watson *Chevron Corporation - CEO*

Pat Yarrington *Chevron Corporation - CFO*

Jeanette Ourada *Chevron Corporation - IR-General Mgr.*

CONFERENCE CALL PARTICIPANTS

Paul Sankey *Deutsche Bank - Analyst*

Ed Westlake *Credit Suisse - Analyst*

Arjun Murti *Goldman Sachs - Analyst*

Evan Calio *Morgan Stanley - Analyst*

Jason Gammel *Macquarie Research Equities - Analyst*

Paul Cheng *Barclays Capital - Analyst*

Mark Gilman *The Benchmark Company - Analyst*

Iain Reid *Jefferies & Company - Analyst*

Faisel Khan *Citigroup - Analyst*

PRESENTATION

Operator

Good morning. My name is Sean and I will be your conference facilitator today. Welcome to Chevron's fourth quarter 2011 earnings conference call. At this time all participants are in a listen-only mode. After the speakers' remarks there will be a question-and-answer session and instructions will be given at that time. (Operator Instructions). As a reminder, this conference call is being recorded. I will 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 - CEO*

Thanks, Sean, and welcome to everyone to Chevron's fourth quarter earnings conference call and webcast. On the call with me today are Pat Yarrington, you all know, our Chief Financial Officer and Jeanette Ourada, our General Manager of Investor Relations. And we will refer to the slides that are available on Chevron's website.

Before we get started, as usual, 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.

Turn to slide 3, I want to begin with safety, where we always do. In March of last year I talked with you at some length about Chevron's Safety Journey, over 100 years of focus and improvements in our systems and processes. I said we work to improve every day. As a result of our efforts, every key measure of safety and environmental performance has improved dramatically over the last decade.

In fact, we just had another very good statistical year in safety. We had world-class low industrial injury rates; we had fewer fires, serious auto, and other incidents. Some very good performance during the year. But we're nowhere near where we want to be. In particular, we had drilling-related incidents in recent months in Brazil and Nigeria, sadly with two contract employee fatalities in Nigeria.

We have full investigations underway and are doing everything we can to learn from these incidents. There's a great deal of information available on our website and I'll be happy to answer any questions after we complete our prepared remarks.

Our financial performance in 2011 was outstanding. We achieved record earnings and cash flow, underscoring the strength of our portfolio and strategic direction. Underlying these record financial results is our outstanding Upstream earnings per barrel. We invest to generate value for our shareholders and we like high-value barrels. While our peers have not all reported their fourth quarter results, we fully expect to maintain our wide lead on this critical metric.

I'd like to summarize a few additional accomplishments. In the Upstream business, we sanctioned three major projects. We broke ground in December on Wheatstone, our second legacy LNG project in Australia. We also moved forward on Clair Ridge in the UK and Tubular Bells in the Gulf of Mexico. In the Gulf of Thailand, our Platong II Project start up and ramped up very quickly. We completed our acquisition of Atlas Energy and supplemented it with some additional acreage acquisitions in the Marcellus. We continued our string of exploration successes offshore Australia with four natural gas discoveries. And we announced the Moccasin oil discovery in the deepwater Gulf of Mexico. And we achieved 171% reserve replacement driven by the initial booking of about 740 million barrels of oil equivalent from our Wheatstone LNG Project.

Looking at our downstream business, we made great progress in the second year of a three-year plan to improve returns. The completion of the Pembroke Refinery sale marked a significant milestone in our portfolio rationalization process. We also made a final investment decision and began construction on a premium base oil plant at our Pascagoula Mississippi refinery which, when completed, will position Chevron as the world's leading supplier of premium base oils.

We're very proud of our performance this past year.

With that, I'll turn it over to Pat, who will take you through our financial results. Pat?

Pat Yarrington - *Chevron Corporation - CFO*

Thanks, John. Slide 4 provides an overview of our financial performance. The Company's fourth quarter earnings were $5.1 billion, or $2.58 per diluted share. For the year, earnings were a record $27 billion, or $13.44 per diluted share, over 40% higher than in 2010.

Return on capital employed for the year was nearly 22% and our debt ratio at year end was 7.7%.

Of particular note, 2011 marked our 24th consecutive annual dividend increase. We had two dividend increases during the year which resulted in a combined 12.5% rise in the quarterly rate in 2011. This is significant, indicating not only our superior performance and our financial strength but also our confidence in our future performance. It is also consistent with our priority of rewarding shareholders with sustained and competitive dividend growth.

In the fourth quarter we repurchased $1.25 billion of our shares, bringing the full-year share repurchase total to $4.25 billion. In the first quarter of 2012, we expect to repurchase $1.25 billion of our shares.

Finally, Chevron's 2011 total shareholder return was 20%. We hold the number one TSR position versus our peer group for the one- , five- , and 10-year period. We are exceptionally proud of this achievement as it demonstrates our history of making wise portfolio investment decisions and executing well.

Turning to slide 5, cash generated from operations was $8.3 billion during the quarter. For the full year, cash from operations exceeded $40 billion, a record for the Company and over 28% higher than last year. This reflects our impressive operating performance and the cash-generating strengths of our portfolio.

At year end, our cash balances totaled $20 billion, up $3 billion from the end of 2010. This put us in a net cash position of about $10 billion.

Our strong cash flow and solid balance sheet continued to be competitive advantages.

Turning to slide 6, I'll compare results of the fourth quarter 2011 with the third quarter 2011. As a reminder, our earnings press release compares fourth quarter 2011 with the same quarter a year ago.

Fourth quarter earnings were $5.1 billion, $2.7 billion lower than third quarter earnings. Upstream earnings were down $464 million, driven by an unfavorable swing in foreign exchange effects and higher operating expenses, partly offset by higher volumes. Downstream results decreased $2 billion between quarters, resulting from weaker margins, the absence of asset sale gains, lower volumes, and an unfavorable swing in foreign exchange effects. The variance in the other bar reflects higher corporate charges.

On slide 7 our U.S. Upstream earnings for the fourth quarter were $97 million higher than the third quarter's results. Higher realizations benefited earnings by $60 million. A 4% increase in crude oil realizations improved earnings by about $100 million while a 13% drop in natural gas realizations reduced earnings by about $40 million.

Higher operating expenses decreased earnings by $65 million between periods primarily due to higher employee costs and increased maintenance activity.

The other bar reflects a number of unrelated items including gains on several small asset sales.

Turning to slide 8, international Upstream earnings were down $561 million, relative to the third quarter. A net positive liftings variance across multiple countries increased earnings by $180 million. Higher operating expenses reduced earnings by $165 million, driven primarily by an increase in employee and maintenance expenses.

Tax items across multiple jurisdictions decreased earnings by $100 million between quarters. This net number includes the absence of the one-time catch-up charge booked in the third quarter due to a retroactive tax increase in the UK.

An unfavorable swing in foreign currency effects lowered earnings by about $305 million. The U.S. dollar weekend against many currencies most notably the Australian dollar and the Canadian dollar. The fourth quarter had a foreign exchange loss of around $3 million compared to a gain of about $300 million in the third quarter. These foreign exchange effects have minimal impact on cash; as we have said before, they are primarily balance sheet translation effects.

The other bar reflects a number of unrelated items including lower realizations and higher exploration expense associated with seismic acquisition costs across the portfolio as well as some well write-offs in China and Angola.

Slide 9 summarizes the quarterly change in Chevron's worldwide net oil-equivalent production. Between quarters, production increased 42,000 barrels a day. Lower prices improved volumes under production sharing and variable royalty contracts during the fourth quarter, increasing production about 4,000 barrels a day. Base business, combined with external constraints, increased production a net 6,000 barrels a day. Tengiz returned to normal operations following a turnaround activity in the third quarter but the impact of this full restoration was partly offset by some unplanned downtime in December.

Production in Thailand was also fully restored following a June third-party pipeline incident only to be partly offset by lower demand as a result of flooding and seasonality in the fourth quarter. Offsetting these net positive impacts were normal field declines and an extended turnaround in Trinidad.

On the third quarter earnings call we told you we expected fourth quarter production to increase approximately 100,000 to 150,000 barrels per day. Obviously, our forecast did not include the negative impacts of the events I just mentioned.

Moving to the next bar, incremental production from major capital projects increased fourth quarter production by 32,000 barrels a day, primarily driven by the start up of Platong II in Thailand and improved reliability at Perdido.

Slide 10 compares full-year 2011 net oil equivalent production to that of 2010. Production decreased 90,000 barrels a day. Price impacts from production sharing and variable royalty contracts decreased production by 32,000 barrels a day. The average Brent price increased about $32 in 2011. For the full year each dollar increase in Brent resulted in a 1,000 barrel per day volume reduction.

Base business combined with external constraints lowered production by 103,000 barrels per day. Normal field declines and higher maintenance activity were partly offset by about 17,000 barrels a day of oil equivalent from our recently acquired Marcellus asset. Our decline rate for the year was about 4%, right in line with our prior guidance.

Incremental production from our major capital projects contributed 45,000 barrels per day, reflecting the start up of Platong II in Thailand and the ramp up of AOSP in Canada, Frade in Brazil and Perdido in the Gulf of Mexico.

Our original production guidance for 2011 was 2.79 million barrels of oil-equivalent per day. We fell short of that guidance by about 115,000 barrels a day. About a third of that is due to higher prices; about a third is due to lower-than-expected major capital project performance, mostly Perdido in the Gulf of Mexico and Tombua-Landana in Angola; and the remaining third is lower base business performance, about half of which is due to the third-party pipeline rupture and decreased demand in Thailand.

As John mentioned, our focus is on profitable barrels. For the year our global upstream earned over $26 per barrel. This is an increase of over $8 per barrel from our 2010 results. We have led our peer group on this metric for over two years by a wide margin and we expect the trend to continue as our competitors announce their fourth quarter results.

Turning now to slide 11, U.S. downstream earnings decreased $908 million in the fourth quarter. Margins dramatically weakened between quarters, lowering earnings by about $400 million. General industry fuel margins fell, contributing about half the decline shown in the bar. Seasonal declines in base oil and finished lubricant demand also punished fourth quarter margins. Maintenance at our Richmond, California and Pascagoula, Mississippi refineries also impacted margins and was the primary driver for lower produced volumes, which decreased earnings by about $200 million. Higher operating expenses decreased earnings by $155 million resulting from increased employee costs and maintenance activity I just mentioned, along with associated higher transportation costs.

Chemical earnings decreased by $80 million due to both lower margins and lower sales volumes. The other bar consists of several unrelated items including the absence of third quarter asset sales, negative LIFO effects, and lower trading results.

On slide 12, international Downstream earnings were $1.1 billion lower this quarter. Refining and marketing margins fell, reducing earnings by $155 million. This reflected weaker Asian demand coupled with regional recovery from shutdowns.

The next bar shows a $570 million negative earnings variance, primarily reflecting the absence of the third quarter gain on the sale of the Pembroke Refinery and related marketing facilities in the UK and Ireland. A swing in foreign currency effects reduced earnings by $230 million; the U.S. dollar weakened against both the Korean won and the Australian dollar during the quarter. Fourth quarter's foreign exchange loss was about $85 million compared to the third quarter gain of about $145 million.

The other bar here reflects a number of unrelated items including lower chemical and trading results and higher operating expenses.

Slide 13 covers all other. Fourth quarter net charges were $553 million compared to a net $358 million charge in the third quarter. This is an increase of $195 million in charges between periods. A favorable swing in corporate tax items resulted in a $30 million benefit to earnings. Corporate costs were $225 million higher this quarter.

For the full year this segment had net charges of $1.5 billion, putting us at the upper range of our $250 million to $350 million guidance range. We believe going forward a higher range of $300 million to $400 million is more appropriate.

With that, I'd like to now turn it back over to John for a few thoughts on 2012.

John Watson - *Chevron Corporation - CEO*

Okay, thanks, Pat.

Turning to slide 14, in early December we announced our capital program for 2012 at $32.7 billion. The 2012 program is in line with our overall 2011 investments once the Atlas acquisition is included. We continue to develop an enviable project queue with almost 90% of the program earmarked for upstream activity.

We are progressing construction on our two world-class Australian LNG projects and deepwater Gulf of Mexico developments. We are planning for increased exploration activity around the world along with additional work to further assess the Marcellus and Utica acreage we acquired this past year. The investments we are making today are on track to deliver significant production growth by mid-decade which is expected to generate substantial cash flow over a long period of time.

Our Downstream investments for 2012 will focus on the construction of a premium base oil plant at our Pascagoula refinery and improving Downstream returns through a number of energy efficiency and feedstock flexibility projects.

Turning to slide 15, this slide shows our net production outlook for 2012. Our full-year outlook for 2012 is 2.68 million barrels of oil-equivalent per day, essentially flat with 2011. The outlook assumes an average Brent price of $111 per barrel, the same average price as 2011, and does not assume multi-curtailments, material security, or market impacts.

Major capital project start ups including Angola LNG and Usan are expected to be largely offset by base business decline and major turnaround activity at Tengiz. 2012 will be the first major plant turnaround for the SGI/SGP facility since start up in 2008. We expect the turnaround to occur in the third quarter and last approximately six weeks. Base business decline is expected to be about 4%.

Looking beyond 2012, I want to remind you of our long-term guidance. At the end of 2009 we said we expected to grow production, adjusted for price impacts about 1% per year through 2014 and then grow 4% to 5% thereafter. We exceeded the 1% rate in 2010. We're a bit below in 2011, but overall on track to meet our goals.

With the strength and scale of our major capital projects and our strong base business performance we continue to expect production to grow to 3.3 million barrels per day by 2017. We are advancing the queue, reaching critical milestones and are well-positioned to deliver consistent growth and performance over the long term.

Looking forward, let me highlight some of the activities that we have planned for 2012 on slide 17. In the Downstream, we will mark the final year of our three-year plan to improve returns. We're well on track to deliver on the commitments we made when we first began our restructuring program. Construction on the Pascagoula base oil plant continues, driving toward a 2013 start up. We're on track for a start up of two major capital projects -- Angola LNG and the Usan deepwater project in Nigeria. We expect increased exploration activity in both our core focus areas and some intriguing test areas around the globe. We expect to enter the front end engineering and design phase of the future growth project at Tengiz, the steam flood pilot expansion in the Partition Zone and our first expansion of Gorgon in Australia.

In 2012 we will have a laser-sharp focus on execution as we continue construction on our Australia LNG and deepwater Gulf of Mexico projects. I look forward to further discussing these plans in more detail at our Security Analyst meeting on March 13 in New York City.

We had a great 2011 and we are looking forward to delivering some strong results in 2012.

Now, that concludes my prepared remarks. We are now set to take some questions, so Sean, if you will please open the lines for those questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Paul Sankey, Deutsche Bank.

Paul Sankey - *Deutsche Bank - Analyst*

It's been a tough few weeks for news flow, clearly. Could you underline for us the resolution that we now have on firstly, the situation in Brazil? The extent to which there's any more potential news flow from the spill or whether or not that essentially got a line drawn underneath it?

The same for Nigeria. And then finally if you could address the recent legal news flow around Ecuador and where we are in that whole process, I would be grateful. Thank you.

John Watson - *Chevron Corporation - CEO*

Sure, let me first talk about Brazil. As many of you know, we had a seep there from well drilling activity in November. And I would tell you, this is less a drilling issue as it is a subsurface issue. We were drilling a well in the Frade field. Remember, we've had over 50 well penetrations in this field and know it pretty well. We hit pressure that was higher than we expected, took a kick and our people responded in textbook fashion to control that kick, weighting up the mud, etc.

With -- it took us some time to identify that seeps were as a result of that kick in the first couple of days. We had sent ROVs down the first day and didn't see anything around our wells. Remember, these are subsea wells. And there was nothing around the FPSO. We sent the ROV down again and saw these seeps.

And so we commenced a significant action at that time to control the surface sheen that we were seeing and to control the seeps. And that has been largely a very successful effort.

And now during that time, you saw some very strong reaction by regulators and in the media. I would tell you, we didn't necessarily put our best foot forward in some of the communication that we made at that time. But the event itself was handled in textbook fashion.

Now since that time we've been working very closely to improve the communications with regulators and to get them the necessary information that they need. But like the United States and some other countries, there are many different factions in Brazil and there are a number of political issues around oil development -- from the environmental community, between the state and federal level. And so you have a lot of different views on oil development. And there are many forces at work in Brazil. But we're doing our best to deal with the circumstance.

I can't predict what may come. What I do know is that the facts would suggest that our people responded very well to this event. And all we've asked is to be treated fairly consistent with the facts and be treated as Petrobras or others would be treated in a similar circumstance.

In terms of Nigeria, the Nigeria event is a serious event and I'm very concerned about it. Obviously, we had two fatalities from that incident. I'm pleased that the evacuation that was put in place was fairly orderly and that 152 individuals were able to escape.

As you might imagine, our first priority was dealing with those 152 individuals and searching for the two that proved to be lost. We've been conducting interviews with those individuals to try to better understand what happened. We have said that we had thought there was some type of an equipment failure on surface facilities. What we know is that there were gas returns from the formation through the annulus that were being circulated out through the mud gas separator.

This is not at all unusual. This is a fairly routine type of activity.

But then something went wrong. And we don't know a lot more about it than that. We're doing a root cause analysis. We're trying to piece through the information that we're getting to better understand it.

But our real focus right now is really on putting out the fire that continues to this day. As you probably read in the material we put out, we've mobilized two rigs to drill relief wells. One is more a precaution. We presume the first will be successful, but in the event that it encounters any challenges we've got a second one. We've received considerable help from the industry in making those rigs available, which we're pleased with. And we're doing well planning right now. I would expect we would spud one of those relief wells within the next week or so.

We have seen the size of the flame go down significantly since the initial event, but we're monitoring that as we go.

I'll remind you, this is a gas well that is burning -- you do see a plume around the site. That's silt and mud as it is being -- it's a very shallow site. It is 40 feet of water. And so as the gas comes up, a lot of silt and mud is being disturbed and you see that plume. But we've been sampling that. That's mud. And that will eventually dissipate and settle to the bottom.

So more work under way. Certainly, I'm concerned about these events. They're fairly different events, as I indicated. The one in Brazil I would categorize more as a geologic event than drilling-related. The one in Nigeria is clearly related to drilling activities and surface activities.

We'll continue to do what we always do in these circumstances. We will work very hard to understand. We've got a root cause analysis team that has been flown in from around the world to understand it. We've taken actions, as you might expect, with stand-downs in our drilling organization, reinforcing well control standards.

And that's on top of many of the proprietary things that we do. But certainly I'm very disappointed in those particular events.

Now, when it comes to Ecuador, that has been in the news as well. I won't go through the case in great detail because I think most of you know the history. If you're on the phone and you don't, I encourage you to look at our website because we have quite a bit of information. And I think it's generally acknowledged that this case is a product of fraud. Most of us know that. This is a collaboration between corrupt plaintiff's lawyers in the U.S. and a corrupt judiciary in Ecuador.

Nonetheless, we are moving it through the judicial system. There have been events in really three courts recently -- one in Ecuador, one in New York, and one in the Hague. So I'll quickly tell you what has happened in each one.

On January 3, a panel of three temporary judges overseeing our appeal of the Lago Agrio verdict in Ecuador upheld that original ruling. So on January 20, Chevron filed an appeal seeking a review by Ecuador's National Court of Justice. Basically we're pursuing all available procedural steps in Ecuador, as you would expect. Remember, we have no assets in Ecuador.

So the second area where there's been court activity has been in the Hague. On January 25 the BIT Tribunal, that is the Bilateral Investment Treaty Tribunal in The Hague converted its previous interim measures order to an interim award. And that makes it have more standing in the international community. And basically, the award is targeted at the Republic of Ecuador and says that Ecuador is obligated to prevent enforcement worldwide pending a full review of formal trial and merits of the case. This award is helpful to us in preventing enforcement outside of Ecuador.

I would also point out that in previous rulings that the Tribunal has made, they've had already indicated that Ecuador will be financially responsible for all the damage caused by this fraud if Chevron prevails. So we've had some strong wording out of that court and are encouraged by that. And there's another hearing scheduled.

And then finally, on January 26 in New York, the U.S. Court of Appeals issued an opinion reversing and vacating the Southern District Court's injunction. We had sought to stop enforcement in U.S. courts -- stop the plaintiffs from enforcing any judgment that might be achieved in Ecuador in courts outside the United States. And in a fairly narrow procedural ruling, the courts held that that statute cannot be implied for purposes of such enforcement. But it was a fairly narrow procedural ruling and it doesn't change -- in fact, it made no comments about the merits of the case. And in fact it made no comment about the RICO case and so you can expect that that will continue on its way.

I know this can be confusing. We said at the onset with this case when you have a collusion and a fraud outside of the United States you have to work many avenues to protect yourself. We still have many defenses, both in Ecuador, in The Hague, and elsewhere where we've put together defense teams should enforcement be sought elsewhere.

It's certainly unfortunate that we're at this point but when you have an elaborate fraud that is being perpetrated against you, that's what you have to do. So I hope that wasn't too long an update on those three matters.

Paul Sankey - *Deutsche Bank - Analyst*

Thank you, John. My follow-up would simply be what are the next dates or events that we should look for as the next meaningful news flow items on those three issues as we go into 2012? And I'll leave it there. Thank you, John.

John Watson - *Chevron Corporation - CEO*

At some point we will hear a final determination in the court in Ecuador. I'll leave that to you to decide what you think will happen there. There could be more out of the BIT Tribunal and then there could be more actions that we could take in New York under the RICO case. So that's where we are.

Paul Sankey - *Deutsche Bank - Analyst*

And dates for more news flow from Nigeria and --?

John Watson - *Chevron Corporation - CEO*

Those are hard to predict. I think -- we will notify you, for example, when we spud the relief well. To some degree events will dictate where we put out news, but any significant change in the status of the well or the status of the work we're doing we'll certainly keep you apprised, and for those that haven't seen it, we are putting up pretty regular updates on our website on both Brazil and Nigeria.

Okay, let's take the next question.

Operator

Ed Westlake, Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

You mentioned, Pat, that $10 billion on the balance sheet continues to provide Chevron with competitive advantages. I guess only if you are going to do something with the cash obviously long-range growth targets unchanged, just some color, perhaps, on is it because portfolio options for additional spend are not yet matured? Is it because you're worried about inflation in terms of the existing projects you have? Or are you thinking perhaps U.S. gas prices being so weak will present a strategic opportunity for you guys?

John Watson - *Chevron Corporation - CEO*

Well, let me make a few comments, because we have some priorities for our cash. Clearly, we have a strong balance sheet, one of the strongest in the industry. We're heading into a period where we have significant capital expenditures ahead of us. And I've said previously that we want to be sure that we can execute this group of major capital projects uninterrupted. And you can have considerable volatility in the commodity markets.

So even though we may think oil prices will be more than adequate to preserve our cash status so that we can fund these capital projects, we have a more conservative balance sheet than might otherwise be the case to ensure that we can execute these major capital projects. That is, I guess, number one that I would tell you. We want to be able to fund these projects.

We, of course, want to be able to continue to pay the dividend and increase the dividend as the pattern of earnings and cash flow permit going forward.

And then, we have further flexibility to repurchase shares if cash gets above the rate that we think affords us those protections. And we have, as you've seen, we have done that.

We're not saving it for a particular purpose. We are opportunistic when it comes to opportunities to add to the portfolio and we want to be in a position of having sufficient resources to be able to take advantage of an opportunity. You've seen last year we made small acquisitions in the Marcellus and add-on, bolt-on acquisitions. And the balance sheet that we have affords us that sort of flexibility.

We don't have to do any acquisitions, but we are in a position to take advantage of opportunities with the balance sheet that we have. So that's the priorities that we have for the cash debt balance that we have today.

Ed Westlake - *Credit Suisse - Analyst*

Maybe a follow-on then. So Gorgon, Wheatstone, and Jack/St. Malo are some of the big projects. Gorgon, I think maybe towards the end of this year you'll be in a more comfortable position in terms of really understanding productivity and the ultimate cost of that project, probably provides a readthrough to Wheatstone. So at that point, would you be more comfortable to say, okay, we've got through the hump of the CapEx and we could maybe return cash to shareholders or do something different?

John Watson - *Chevron Corporation - CEO*

I think you hit it about right in terms of sort of understanding what cost, if you will. If you look at Wheatstone -- I just had an update last night with the project team for example on both Gorgon and Wheatstone. Once a month I meet with the project manager and line management and had a pretty thorough update on where we are at Gorgon. And we're 36% complete now. It's going very well. Other than a cyclone descending on Barrow Island as we speak. That's one of the things that we deal with. We have hardened facilities there so we'll manage our way through that, but the project is going very well, 36% complete.

And I'll just tell you we're on track for late 2014 start up of Gorgon and feel pretty good about the progress that we have made on that flagship project.

From a cost point of view, and maybe this is what you were getting at, we will -- this will be the first year where we'll have a lot of on-island activity. And so we'll get a good chance to understand labor productivity and the progress that we're making.

That, coupled with impacts of foreign exchange, for example, will dictate whether there's any change to cost one way or another. At this point, the $37 billion is the target for the project and if we have anything more to say, it's going to be probably more later in the year.

So on the subject of will we change our balance sheet structure as the year wears on, I think it's fair to say that as we get closer to start-up of these big projects -- remember, we've got Gorgon, Wheatstone, Jack/St. Malo, Big Foot, Tubular Bells that all start up in that -- Wheatstone is a little later, but the big ones in the 2014 timeframe -- as we get closer to that date, the need for flexibility on the balance sheet diminishes. And then we'll have choices for what we do with that additional cash.

Ed Westlake - *Credit Suisse - Analyst*

Thanks very much, John. Very clear.

Operator

Arjun Murti, Goldman Sachs.

Arjun Murti - *Goldman Sachs - Analyst*

John, you outlined a number of the big projects -- Australia LNG, deepwater, you got some big international projects. The big glaring hole is U.S. shale -- and U.S. liquids shale in particular. You do have the Marcellus, but as some of these opportunities start to expand and mature, they do actually look quite substantial.

I'm curious if you can provide some comments on how you do, thinking about addressing that seeming hole in your portfolio. There are a lot of jobs that come with these projects. There's a lot of opportunity to invest here in America. You are the second largest energy company in the U.S. Between the inherent investment opportunity and some of the other benefits of investing here, how do you see that as a strategic need for Chevron? Thank you.

John Watson - *Chevron Corporation - CEO*

Look, we're very positive on shale. As you know very well, the shale gas business in this country was really built by the independents because you had to have strong land departments. And so major companies got involved by buying their way in. And so prices began to run up.

And we felt we are always very focused on value. No matter how much we might like rocks, we are always very focused on value. And many have plunged in with big dollars and perhaps those will prove to be money well spent.

For our view, we had some pretty strict criteria and we have made some targeted acquisition in areas where we know we have a low-cost basis of doing business including a substantial carry to cushion us through a difficult period in the gas market.

I guess I'd point out that we have some eight million acres of shale around the world. And in March, you'll hear George give you an update on not just the Marcellus and Utica shales but also some of the things we're working in West Texas and otherwise.

So we feel pretty good about our portfolio. We have opportunities overseas. We're just drilling a well in Poland. We're drilling a well, in fact, our second well in the Duvernay in Canada. So I think we have a little more than might be commonly recognized. But we are not ideologically against these things. And we have some acreage that we've had for a long time that is held by production in the Delaware Basin, etc., that shows some promise as well.

So I think we'll have an opportunity in March to give you a more thorough update of what we have. But we're not ideologically opposed to shale. We just want to enter in a way where we can generate some value.

Arjun Murti - *Goldman Sachs - Analyst*

John, I realize there's no absolute answer here in the sense that it's always case by case specific, but we've generally presumed some of the joint ventures that some of the international and non-U.S. companies have done are probably inherently less likely for Chevron to pursue. Is that true?

And then the related follow-up is, do you feel a need to add expertise via adding employees of other companies potentially in terms of pursuing U.S. opportunities? Thank you.

John Watson - *Chevron Corporation - CEO*

I think it's fair to say that if we were going to take on a significant new opportunity in the U.S., organizational capability would be a consideration. When we acquired Atlas, we picked up some very good people with that and that was very helpful to us. Certainly manpower is at a premium.

So I think that is an important part of what we are looking for.

So what was the other part of your question?

Arjun Murti - *Goldman Sachs - Analyst*

Just on joint ventures. Again, that's been an avenue for some folks. We thought it as less likely for you all.

John Watson - *Chevron Corporation - CEO*

Well, there's two aspects to the joint venture. One is if you come in and are carrying the partner or the operator, you're paying a disproportionate level of cost. And with the gas market where it is, that's going to be difficult financially for a period of time. We acquired Atlas and that came with a carry, so we like that better.

Second, coming in as a non-operator isn't our preferred approach. If we are going to apply our expertise we would rather have some degree of control. We looked at a lot of these different ventures and you had to come with money and you had to come in and really have the pace and activity and practices dictated by non-operators. And in many cases, those were operators we didn't want to be in that position with.

Arjun Murti - *Goldman Sachs - Analyst*

Thank you very much, John.

Operator

Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

John, I know you guys have an increase in exploration activity this year. I was wondering if you could provide an update on exploration, in particular Liberia, Bear's Hump, and pacing in the Gulf of Mexico. I think you have four to five rigs working today and/or some of the shale positions that you mentioned, please.

John Watson - *Chevron Corporation - CEO*

We do have quite a bit of exploration activity this year. As you know, we've been accumulating acreage over the last several years. So where are we drilling wells this year?

We have a key well that will be spudded shortly in Liberia. We've talked about that. We've got a well drilling now in China. That's a very encouraging well. We've got a well drilling now in Poland. We've got a well drilling now in the Duvernay up in Canada. So we have those, certainly those that are underway.

In the Gulf of Mexico we have four rigs currently. I should note, we have had one dry hole in China, so we're on our second well there.

In the Gulf of Mexico we have for rigs currently. Right now they are all working on development activity. But we do have exploration wells ahead.

We were unable to get the Coronado well down so we're looking for a new location and a new opportunity to drill that well. So those are some of the highlights that I would offer in the portfolio this year. We will have some tests in the Utica that we will drill this year. So that's encouraging. And more in the Duvernay.

Evan Calio - *Morgan Stanley - Analyst*

So it sounds like there will be some key exploration results maybe end of Q1 here?

John Watson - *Chevron Corporation - CEO*

Yes --

Pat Yarrington - *Chevron Corporation - CFO*

As the year progresses.

John Watson - *Chevron Corporation - CEO*

As the year progresses. I think the Liberia well will be an interesting one for us.

Evan Calio - *Morgan Stanley - Analyst*

The second question I have, can you tell me the reserve bookings related to Wheatstone? And then with your recent discovery in addition to the five others that could support, I think 11 straight right now -- that could support a third train in Wheatstone. How will that process develop in 2012 as well as any potential Gorgon expansion where I believe you have space for five trains. I'm just thinking you could see within the existing portfolio, even an extended growth beyond 2017.

John Watson - *Chevron Corporation - CEO*

To be sure. First, the Wheatstone booking was 740 million barrels. So obviously that was a significant contributor to our reserve adds for the year.

In terms of what is likely to come next, we have three trains at Gorgon; two in the Foundation Project at Wheatstone. The most likely next step is a fourth train at Gorgon. And whether we can get to a fifth train on Barrow Island will remain to be seen. We believe we have the plot space.

But subsequent trains at Wheatstone will likely then follow the fourth train at Gorgon. That will be the resources that we have accumulated and any third-party activity. Remember, that's a hub site and so it will also be a function of resources that we can bring to that site, which bring down fixed costs. And we are actively working that aspect, as well.

Evan Calio - *Morgan Stanley - Analyst*

Are those pre-feed? Is that your assessment?

John Watson - *Chevron Corporation - CEO*

Yes, those are earlier stage. The one that is most likely for feed is train four at Gorgon.

Evan Calio - *Morgan Stanley - Analyst*

Great. Thank you.

Operator

Jason Gammel, Macquarie.

Jason Gammel - *Macquarie Research Equities - Analyst*

Thanks very much. First of all, on reserve replacement, John, obviously a big number at Wheatstone but even deducting that out it looks just under 100% replacement from all other sources. Are you able to provide any further breakdown of the geographic reserve adds?

And I think, specifically, I would be looking at deepwater Gulf of Mexico because I believe last year there were some price implications that prevented you from booking some of the reserves associated that you -- with the projects that are moving forward there.

John Watson - *Chevron Corporation - CEO*

Yes, we did make a booking on Jack/St. Malo this year. And so, in fact, if you look at the typical categories of extensions, etc., all categories of reserve movement were positive other than the impact of price and obviously production during the year. So Big Foot, we also made a booking this year. You'll see more in the Annual Report when we disclose it. But it was fairly broad-based. We did have bookings in the Marcellus as a result of our activity there as well.

So it was fairly broad-based and positive.

I'll just remind you, these things are lumpy. A year ago when our bookings were a little bit low, we said these things are lumpy and a function of largely major capital project timing. But we're also doing a lot of very good work in reservoir management to be sure that we're getting the necessary technical work done to book reserves as fast as we can when we know developments are coming and they are really waiting on technical work or determinations to meet booking standards. So our reservoir management group continues to do good work around the Company.

Jason Gammel - *Macquarie Research Equities - Analyst*

That's great. And with the second question, Upstream margins obviously comparing you against any of your peers, they've been fantastic, but if I look at the fourth quarter and compare it to your own good history I am actually looking at capturing about 21% of the Brent price. Whereas you have been capturing pretty consistently between 23% and 24% of the Brent price really referring specifically to the international margin.

Is there anything going on in the quarter that makes it nonrepresentational? Or should we be looking at the potential for cost inflation to start eroding that great margin that you'd established over the course of 2011?

Pat Yarrington - *Chevron Corporation - CFO*

Jason, I think I'll take this one if you don't mind. So, realizations generally were relatively flat globally there. We had higher exploration expense. I mentioned the seismic activity and the well write off that we had, so fourth quarter was a little bit higher on exploration expense.

We also had higher operating expenses, I mentioned that. And then there was additional charges, one-time charges, tax-related charges, in the fourth quarter that you would not see recur again. And that was a significant charge there.

John Watson - *Chevron Corporation - CEO*

I think the general message I would give you is there hasn't been something fundamentally change in our portfolio. We have a strong portfolio. We will continue to perform well, particularly with high oil prices.

And in March, you will see us talk a little bit more about our portfolio and some of the new projects coming in. Because the new projects are very good also. And they are high return per barrel.

So naturally, we've got a range of profitability across the portfolio. But on balance, we think this lead we have is something we are very likely to keep in the kind of oil price environment and particularly, with the sort of North America gas prices that we are seeing.

Jason Gammel - *Macquarie Research Equities - Analyst*

Appreciate that. I'll look forward to the further detail in March.

Operator

Paul Cheng, Barclays Capital.

Paul Cheng - *Barclays Capital - Analyst*

John and Pat, and Jeanette -- a several-part question if I could. Pat, can you give us a rough idea how the CapEx trend is going to look like 2013 to 2017? I presume that there's a number of projects that you still need to sanction and that you're probably not going to see any relief. So should we assume that it's going to be up say, a couple billion dollars on average a year comparing to this year level?

John Watson - *Chevron Corporation - CEO*

Paul, if I can comment, the major spend projects we sanctioned and are under way. And we are heading into a period of heavy construction -- Gorgon, Wheatstone, Jack/St. Malo, Big Foot -- all those projects are in their high spend period in the period 2012 to 2014. So that's when you should be looking to see -- those are likely to be high spend years. And we've given you the number for 2012. We haven't given numbers beyond that.

But I would just say that period is likely to be the three-year period.

The next big project that will add a big tranche of cost is likely to be the future growth project at Tengiz. And we are likely to begin progressing that. But that is slated for start up 2017, later -- kind of later time period. And so that peak spend will likely be later in the time period. And same thing goes for the steam flood project in the Partition Zone which will be a significant spend. That's behind these big projects. So I wouldn't look for a major tranche of increase from beyond what we've talked about during this period.

Paul Cheng - *Barclays Capital - Analyst*

And John, if we're looking at all the noise surrounding your oil spill in Brazil and also the last couple of years a little bit of change in the political wind, how they treat the foreign oil company in the country, all those add together, has that changed your view about the commitment of the -- I shouldn't use the word commitment -- but the appetite of the Company in that country?

John Watson - *Chevron Corporation - CEO*

Well, let me make a broader comment. I think that host governments, whether it is the United States, China, or Brazil, have very high expectations for companies like ours. They expect the best. We trade on our reputation. Us and frankly, other IOCs, trade on our reputations. And so we get held to a very high standard. And they expect excellence from us. And when they don't see it, they come down hard. And we've seen that take place elsewhere.

So that's a part of what the expectation is. And we need to not put oil in the water. And that's what we work to do every day.

So expectations are high. Transparency is high. And anyone who has an agenda that might not be consistent with our objectives is going to point out any flaws or mistakes that we make. So we should expect that. And we have to deal with it.

We do work very hard to get balance and facts out into these circumstances and assume that rule of law and consistent treatment will prevail. But certainly, expectations are higher today than they might have been two, three years ago.

Paul Cheng - *Barclays Capital - Analyst*

Final question, final one, can I?

John Watson - *Chevron Corporation - CEO*

Okay, one more quick one, yes.

Paul Cheng - *Barclays Capital - Analyst*

Just on the resource base, I understand it's lumpy in terms of moving into the proved and reserved. Do you have a rough estimate you can give us between 2012 to 2015 -- how much is your existing probable resource that you can put into the proved and reserved from the major projects?

John Watson - *Chevron Corporation - CEO*

I would tell you, over time, we are obviously targeting to replace more than 100% of reserves, but I don't have a particular target for you. George will give you a little bigger breakdown on -- you'll recall, last year he talked about some of our big projects and how much had been booked on those projects. We'll give you some of that same information in March to try to help you with that.

Okay, we'll go to the next one.

Operator

Mark Gilman, The Benchmark Company.

Mark Gilman - *The Benchmark Company - Analyst*

On Angola LNG, could you discuss what marketing arrangements you have underway or in place for the gas? And then I have a follow-up.

John Watson - *Chevron Corporation - CEO*

As you know, the project was originally designed to bring gas to the United States. We've been working with Sonangol and our other partners to put in place a diversion program, which of course makes sense given markets in Europe and Asia. And I expect that over time, we will have the flexibility to move gas to those markets. So that's basically the plan for us.

Mark Gilman - *The Benchmark Company - Analyst*

John, if I could just follow up on that, are there any short-term contracts you have in place to move that gas to Asia?

John Watson - *Chevron Corporation - CEO*

We're in the process of contracting as we speak. So I don't have for example, a destination for the first cargo to share with you.

Mark Gilman - *The Benchmark Company - Analyst*

My follow-up relates to the 2012 production forecast. I'm wondering, are there any production sharing contract thresholds that have entered into that number? And if you could be a little bit more specific in terms of what the volumetric impact might be of the Tombua-Landana disappointment as well as the major Tengiz turn. Is that a full plant turn for six weeks so it will be completely shut down, or is it something less than that?

John Watson - *Chevron Corporation - CEO*

It is a full plant turnaround so it's a very significant event. In terms of other PSC effects, the PSC effects can vary by price. So there are different impacts in the $70 range and the $90 range and the $110 range. So they do vary. But I'm not going to get into the specifics of those. Jeanette may have a comment here.

Jeanette Ourada - *Chevron Corporation - IR-General Mgr.*

I think you are asking where are we going to hit any PSC triggers in 2012. And there's no major trigger in our forecast that we're expecting.

Mark Gilman - *The Benchmark Company - Analyst*

In the Tombua-Landana issue?

John Watson - *Chevron Corporation - CEO*

Performance hasn't been up to what we had expected and we're dealing with it to see if we can resolve some of the issues. But the production is a little shy of -- what we said is production was a little bit shy of what we had built in the plan this year.

Mark Gilman - *The Benchmark Company - Analyst*

Thanks very much.

Operator

Iain Reid, Jefferies.

Iain Reid - *Jefferies & Company - Analyst*

Can I ask a couple of questions, again on LNG? You took FID on Wheatstone with I think industry low in terms of the amounts of gas which had been marketed. Are you keeping some of this back for your own marketing operation or do you intend to contract that completely, say, during this year?

And secondly, on Browse, this one seems to be slipping quite a long way down the program in Australia. Is this a project now you've put in the post-2020 start-up frame given the difficulties there?

John Watson - *Chevron Corporation - CEO*

A couple of comments. First, we've been pretty successful in our gas marketing. We are about 70% under SPA at Gorgon, about 60% in Wheatstone. And we continue to have good conversations with gas customers. Recall, some have been impacted by -- some of the contracting has been impacted by the events around Fukushima. So it's been a very sensitive and difficult time for some of the Japanese customers.

So I expect that, as we move along, we'll get into 85%, 90% range and every indication I have based on my conversations with our gas people is that, particularly with some of the events taking place around the world, there is plenty of demand out there at similar pricing to what we're seeing today.

But we are 60% at Wheatstone and I expect we will move forward successfully. Browse, I am probably best referring you to Woodside, who is the operator there. I think the intent of the partnership is to keep the retention licenses in place.

Remember, there were some conditions that were put on development. There were some actions that were required in the partnership in order to retain the retention licenses. The partners have been working through the economics of the scheme that was put forward by the operator. And so I don't want to prejudge or comment on that. I'll just say that we are committed -- certainly committed to developing the resource. And it has to be done in an economic way.

But I probably need to leave that to Woodside, as they are the operator.

Iain Reid - *Jefferies & Company - Analyst*

Could I ask just one very quick follow-up on something you answered earlier in terms of the impact of the Tengiz future growth project on future CapEx. Are you basically saying to us that $30 billion, $33 billion is where Chevron is going to be for the next six, seven years in terms of overall spend?

John Watson - *Chevron Corporation - CEO*

No, I didn't say that. What I said was 2012, 2013 and 2014 are peak years because of the LNG projects. And if you simply did math and took out those expenditures you would see a big drop-off. But we continually add items into the hopper and the future growth project was one of those. But it doesn't mean spending will necessarily be at this $33 billion level.

Okay and then I'm going to take one last question from our next person. Thank you.

Operator

Faisel Khan, Citi.

Faisel Khan - *Citigroup - Analyst*

I believe last year when you guys put out your original budget for 2011, you talked about a $26 billion budget and you came in at $29 billion for 2011. So if you could talk about what caused that number for 2011 to be higher than your original budget. And if you could also talk about for 2012, what the major variables are that can influence the budget for 2012 as we get into the end of the year?

John Watson - *Chevron Corporation - CEO*

Sure. I will let Pat take that one.

Pat Yarrington - *Chevron Corporation - CFO*

So principally there were two items that I would call your attention to. One, we did a little bit of coring up around the Atlas acquisition property, so a little bit of coring up around the Marcellus. That was not planned at the time we put out the original target there.

And I would also say because of the strong price environment, particularly in the U.S., we've had additional activity in the U.S. And that led to -- those two items really account for that increase of about $3 billion.

In terms of any other outlook changes that we've got relative to the planned C&E target for 2012, there's nothing that comes to mind that we need to update you about. And we feel good about the $32.7 billion figure that we've put out.

Faisel Khan - *Citigroup - Analyst*

Then on your guidance for corporate expense, you said that was going to be a little bit higher this year versus last year. Is it the major incidences between Nigeria and Brazil that are influencing that corporate expense number?

Pat Yarrington - *Chevron Corporation - CFO*

No, actually, if you look back we have had the corporate guidance in that sector be $250 million to $350 million for quite some time, several years, in fact. And all I was really trying to do was acknowledge the fact that we do have corporate departments whose salaries go up a little bit over time. In this particular case, we had some additional pension expense that's related to the funding position of our pension, and I expect a little bit of that to be higher in 2012. So it's really just trying to give you a little bit of better guidance.

Faisel Khan - *Citigroup - Analyst*

And lastly on the Coronado, you said the well was not able to get down or you did not drill the well at Coronado?

John Watson - *Chevron Corporation - CEO*

We drilled the well. We weren't able to get down -- couldn't get through the salt.

Faisel Khan - *Citigroup - Analyst*

Understand. Thank you so much.

John Watson - *Chevron Corporation - CEO*

Okay. With that, thank you, Sean. In closing, let me say we certainly appreciate everyone's participation in today's call. I especially want to thank each of the analysts on behalf of all the participants for their very good questions during this morning's sessions. Goodbye, thank you and we'll see you in March.

Operator

Ladies and gentlemen, this concludes Chevron's fourth quarter 2011 earnings conference call. You may now disconnect.
