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EDITED TRANSCRIPT

CVX - Q1 2016 Chevron Corp Earnings Call

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OVERVIEW:

Co. reported 1Q16 loss of $725m or $0.39 per diluted share.

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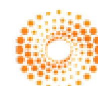

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PRESENTATION

Operator

Good morning. My name is Jonathan and I will be your conference facilitator today. Welcome to Chevron's first-quarter 2016 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 Vice President and Chief Financial Officer of Chevron Corporation, Ms. Pat Yarrington. Please go ahead.

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

Thank you, Jonathan. Welcome to Chevron's first-quarter earnings conference call and webcast. On the call with me today are Joe Geagea, Executive Vice President of Technology, Projects and Services. Many of you know Joe, but for those of you who don't, I thought it would be useful to highlight that he leads our technology, procurement and project functions. He also oversees our centers of excellence for upstream, including drilling. Also joining me on the call is Frank Mount, 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 on slide two.

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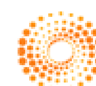

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I will begin with key messages from our March 2016 security analyst meeting followed by a recap of our first-quarter 2016 financial results. Joe will provide some color around our spend reduction initiatives and discuss recent updates on key projects prior to my concluding remarks.

Turning now to slide three, our analyst day was about seven weeks ago now and I thought it would be worthwhile to reiterate the primary messages from that series of sessions. Preserving and growing the dividend is our first priority. Our intention is to be able to cover the dividend in 2017.

Our capital spend profile is coming down. We are completing major capital projects already under construction but otherwise reducing long-cycle spend. We are lowering our cost structure to better match a low price environment by improving efficiencies, streamlining the organization and working with suppliers to achieve cost reductions.

At the same time, we expect our cash inflows to be growing. Production increases will occur as we bring on and ramp-up projects. While volume growth is sensitive to any number of unknowns such as prices, divestments, ramp-up profiles, we anticipate volume growth through the end of the decade using reasonable estimates for these and other uncertainties.

The cash generation of the new assets coming online is substantial to the point where these production adds are expected to raise the overall cash margin per barrel of the entire portfolio even absent any increase in price.

This year we plan to use some of our borrowing capacity to complete projects. We have one of the strongest balance sheets in the industry and we believe we can come through the lows of this price cycle with long-term financial strength intact. Our investment will shift to a higher proportion of short-cycle projects. Not only are many of these brownfield opportunities, but they will give us greater capital flexibility going forward to help limit further debt increases.

Finally, we are focused on improving financial returns, reducing pre-productive capital, moving towards more short-cycle higher return investments, lowering our cost structure and improving execution on major capital projects.

Turning to slide four, an overview of our financial performance. The Company's first-quarter loss was $725 million or a negative $0.39 per diluted share. Excluding foreign exchange and special items, as detailed in an appendix slide, the loss for the quarter totaled $211 million or a negative $0.11 per share. Cash from operations for the quarter was $1.1 billion and our debt ratio at quarter end was 22%. Our net debt ratio was 18%.

During the first quarter we paid $2 billion in dividends, earlier in the week, we announced a dividend of $1.07 per share payable to stockholders of record as of May 19th. We currently yield 4.2%.

Turning to slide five, cash generated from operations was $1.1 billion during the first quarter. Obviously, upstream cash generation has been heavily penalized by low commodity prices. Downstream continues to generate strong cash flow, although seasonal patterns are evident.

During the quarter, operating cash flow reflected about $1 billion of working capital requirements as well as certain pension contributions. In addition, affiliate dividends were modest in the quarter, a pattern that is clearly price-related.We expect cash generation to improve going forward as our costs come down and as prices move up.

Cash capital expenditures were $5.6 billion, a decrease of approximately 27% from first-quarter 2015. At quarter end, our cash and cash equivalents totaled approximately $8.9 billion and our net debt position was about $33 billion.

Turning to slide six. Slide six compares current quarter earnings with the same period last year. First-quarter 2016 results were $3.3 billion lower than first-quarter 2015 results. About half of this quarter-on-quarter decline was in special items and foreign exchange. Overall, special items accounted for a negative variance between quarters of $755 million, the bulk of which related to last year's recognition of both asset sale gains and the favorable impact of changes in UK petroleum tax regulations.

A swing in foreign exchange impacts decreased earnings by $900 million between periods. As a reminder, most of our foreign exchange impacts stem from balance sheet translations and do not generally affect cash.

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Excluding special items and foreign exchange, upstream earnings decreased approximately $1.6 billion between quarters. Lower crude realizations were partially offset by higher sales volumes and lower operating and exploration expenses. The realization change was in line with our sensitivity of $350 million per dollar change in Brent.

Downstream results, excluding special items and foreign exchange, decreased by approximately $475 million primarily driven by lower worldwide refining margins. The variance in the other segment was primarily from lower corporate tax items.

Turning to slide seven. I will now compare results for the first-quarter 2016 with the fourth-quarter 2015. First-quarter results were $137 million lower than fourth quarter. A swing in special items, mainly the absence of fourth quarter's impairment and project suspension charges, increased earnings by $930 million. Foreign exchange impacts went the other way, decreasing earnings by $365 million between periods.

Upstream results, excluding special items and foreign exchange, decreased by approximately $750 million between quarters primarily reflecting lower realizations again in line with our sensitivity.

Downstream earnings excluding special items and foreign exchange were lower by $163 million. Weaker refining margins were partially offset by stronger trading results, lower operating expenses and the absence of year-end inventory charges from a draw into higher cost prior-year layers. The variance in the other segment largely reflects lower corporate charges.

Slide eight compares the change in Chevron's worldwide net oil equivalent production between the first quarter of 2016 and the fourth quarter of 2015. Net production decreased by 7,000 barrels per day between quarters. Major capital project ramp-ups, primarily at Gorgon in Australia, Chuandongbei in China, and Lianzi and Moho Nord in West Africa increased production by 11,000 barrels per day. The absence of planned and unplanned downtime, mainly at Tengiz in Kazakhstan, increased production by 25,000 barrels per day between periods.

Shale and tight production declined 5,000 barrels a day between quarters as external constraints such as weather impacts and downtime at a third-party processing facility impacted the Permian. Price and cost recovery effects associated with production sharing and variable royalty contracts decreased production by 18,000 barrels per day between quarters as lower crude prices were more than offset by the impact from lower spend on cost recovery.

The remaining variance in the base business and other bar primarily reflects natural field declines and other adjustments. All this said, first-quarter volumes are up about 2% from full-year 2015 production. This is right in the middle of the guidance range we provided in January and reaffirmed in March. We still believe this guidance is appropriate.

Slide nine compares the change in Chevron's worldwide net oil equivalent production between the first quarter of 2016 and the first quarter of 2015. Net production decreased by 15,000 barrels per day between quarters. Major capital projects increased production by 38,000 barrels per day primarily due to production ramp-ups from the Deepwater Gulf of Mexico, Bangladesh and West Africa, in addition to start-ups at Gorgon in Australia and Chuandongbei in China.

Shale and tight production increased by 37,000 barrels per day due to the growth in the Permian and Marcellus in the US and the Liard and Duvernay basins in Canada. Volumes associated with production sharing and variable royalty contracts increased production by 16,000 barrels per day as the positive impact from lower crude prices was partially offset by the impact of lower spending on cost recovery.

The shut-in of operations in the Partition Zone decreased production by approximately 76,000 barrels per day. The decrease of 30,000 barrels per day in the "Base Business andOther" bar primarily reflects normal field declines and higher downtime activity partially offset by production from new wells and favorable impact from reduced external constraints.

Turning now to slide 10, we are making good progress at reducing our spend. These charts use a rolling four-quarter average to illustrate capital and operating expense reductions. When comparing the rolling four-quarter average of first-quarter 2016 to the same period of the prior year, capital outlays are down 19%.

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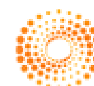

In December, we announced a C&E program of $26.6 billion for the year, but as we noted in March, we are now targeting closer to $25 billion for the year. As we continue to finish major capital projects under construction, we will move to an absolute lower level of annual spend in future years, as evidenced by our $17 billion to 22 billion range that we have given you for 2017 to 2018.

Affordability considerations at the time will be paramount in determining actual budgets. Capital intensity will be going down, capital discipline will be going up.

You see the same general pattern on operating expense, same downward pattern on operating expense. Expenses continued to rise through 2014 but then notably turned south in mid-2015 as our deliberate cost savings initiatives began to take hold. The rolling first-quarter 2016 average is 6% lower than the comparable figure a year ago.

There are some transitional costs such as severance and rig termination fees that are incurred as we take steps to compete more effectively in a lower price environment. Once we are through with the transition costs and as we carry on with the implementation of our various cost savings initiatives, we expect to see continued movement towards a lower sustainable cost structure. Cost reduction momentum should continue through 2016 and 2017 as the full run rate of our actions is recognized.

Joe will now walk you through some specific examples of our cost reduction efforts before offering an update on key projects.

Joe Geagea - *Chevron Corporation - EVP, Technology, Projects and Services*

Thank you, Pat. Turning to slide 11, I will start by providing some examples in support of Pat's analysis. Our efforts have focused on achieving sustainable reductions and improving efficiencies.

On the organizational side, to date we have reduced our employee headcount by more than 4,000 relative to year-end 2014 and we are on target to achieve approximately 8,000 total employee reductions by the end of 2016. We are also on target to reduce our contractor workforce by about 6,500 from 2014 levels.

At the analyst meeting we shared with you examples of our improved drilling efficiencies in the Permian and Gulf of Mexico. So today let me give you an additional example from a different region of the world.

In Thailand, operational discipline and streamlined processes have enhanced drilling execution efficiency resulting in about 45% lower average days per 10,000 feet drilled in a two-year period, as you can see in the graph. And we are continuing to outperform our regional competitors.

We are also focused on improving our efficiencies and logistics. One example in West Africa includes shifting from department dedicated vessels to a centrally managed fleet using a decision support center. As a result of this effort, we expect to achieve savings of 30% and reduce the number of vessels in that region by about 40%.

We are also continuing to take advantage of our size and scale. In a different part of the world, we are coordinating contract awards with one supplier across three different regions in reducing the number of vessels by optimizing marine vessel size.

One of our focus areas is to retain gains achieved during this industry downturn. We are doing this across the globe. For example, in one region we are taking advantage of the current downturn to negotiate with our main supplier, lock in lower rates through 2022 and upgrade with newer and more capable equipment. It not only improved our rates, but is also expected to improve our reliability.

As we look ahead in the supply chain, we see opportunities for more strategic supplier relationships and standardization. At the analyst meeting we shared with you the cost savings achieved in the oil fields Tubulars category. These reductions were achieved through standardization and supplier rationalization where we went from having 35 suppliers in the past to four going forward.

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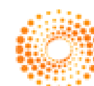

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On Gorgon, we have worked to standardize and intend to replicate subsea equipment generating procurement and installation efficiencies as well as considerable cost savings. And lastly, we have been working at standardizing the valves for some time and we will start deploying these standard valves on future projects.

Turning to slide 12, let me give you some project updates. At Gorgon, we commenced LNG production on March 7. We ramped up total production to approximately 90,000 barrels per day, and we shipped the first cargo on March 21. Since late March, we have incurred downtime at the plant due to mechanical issues with the propane refrigerant circuit of Train 1. Repairs to this equipment are nearing completion and we are in the process of reinstating the propane refrigerant circuit. We expect to restart Train 1 in the next few weeks and resume LNG production within the 30- to 60-day estimate we provided previously. We still expect to achieve Train 1 ramp-up within the previous guidance of six to eight months from initial start-up.

Construction on Trains 2 and 3 is progressing as planned and we anticipate these trains being ready for start-up at roughly six month intervals.

Turning to slide 13, at Wheatstone all nine development wells are completed. We expect to release the drilling rig in the next few months following well cleanup activities. Offshore platform hook-up and commissioning is progressing on track with this work expected to be complete well in advance of plant start-up.

At the plant site, piping, electrical and instrumentation work is progressing well. Our plan reflects observed performance rates on other Australian LNG projects. Actual rates are currently on track with our plan and the outlook for first LNG remains mid-2017.

Train 2 construction work is also progressing on schedule. 12 of 24 process modules required for Train 2 start-up are now on site and module deliveries are meeting scheduled milestones.

Turning to slide 14, I would like to share brief updates on the other projects which we are expecting to start-up this year.

At Angola LNG, gas has been introduced into the plant and the team is working through the start-up process with dehydration ongoing ahead of commencing liquefaction. We expect LNG production imminently and anticipate shipping the next cargo in May.

At Mafumeira Sul, hook-up and commissioning is ongoing. All structures, top sides and pipelines are installed and the living quarters platform is now occupied enabling increased manpower on piping, electrical and commissioning work. Batch drilling of the first 10 wells is complete and first production is expected later this year.

At Chuandongbei, Train 1 started up in January and we were able to ramp up to full capacity within 30 days. Train 2 came online in early April and ramp-up is in progress. We expect to start Train 3 this quarter.

At Alder, topsides have been installed and subsea installation work is progressing. At Bangka, well completions are currently ongoing. First production is expected from both these projects later this year.

Pat will now share an update on our asset sales program.

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

All right. Thanks, Joe. Turning to slide 15, asset sales are a routine part of our business. They generate needed cash and they enable a more strategic, effective and capital efficient portfolio. Over the next two years, we are targeting $5 billion to $10 billion in sales proceeds. The assets targeted for sale are marketable and we believe the prospective transactions are executable as well.

We generally do not discuss specific assets targeted for sale until we have a transaction. However, there has been growing media coverage since our analyst day on a few of these prospective sales, and as such, we wanted to provide updates where possible.

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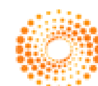

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The chart highlights some specific transactions that are in the public domain. You will note the vast majority of these are not oil price sensitive, and thus we expect to be able to obtain good values on the sale. There were no significant transactions in the first quarter but activity has picked up in the second quarter. Already known second-quarter transactions include the sale of our interest in two gas storage facilities in Western Canada, the sale of our KLM pipeline in Western San Joaquin crude oil pipelines in California, and the divestiture of 19 fields and associated assets located primarily in the Gulf of Mexico Outer Shelf and in Louisiana state waters.

In 2015, we signed an agreement to sell our New Zealand downstream operations subject to certain regulatory approvals. Those regulatory approvals were received yesterday and we now anticipate final closing midyear.

Just last week, we reached an agreement to sell our assets in Hawaii. The sale includes the 58,000 barrel per day refinery, interest in a 58 site branded service station network, four product distribution terminals, pipeline systems and other downstream-related assets. This transaction is subject to regulatory approval and is expected to be completed in the second half of 2016.

In addition, we are soliciting interest to sell our 75% shareholding in South Africa downstream. We are also exploring potential interest in our geothermal business and Myanmar upstream assets.

In aggregate, while it is always difficult to be precise about specific timing, we currently have line of sight on around $2 billion in proceeds, maybe a little higher, for 2016. And because we have multiple transactions in the queue including those not highlighted on the slide, we have confidence in achieving our two-year $5 billion to $10 billion target.

Turning to slide 16, I would like to close with another slide from our recent investor session. It is an illustration of how we get cash balance next year. In this slide, we use $52 Brent, as it was the actual average price in 2015 and in line with average sell side analyst price targets for 2017. However, we are committed to balancing at any reasonable price. Spending will come down significantly this year and next as major development projects get finished and come online, as we high-grade future investments to shorter cycle higher return opportunities and as we get more efficient and lower our cost structure.

Cash generation will grow not only because of more production but also because of accretive cash margins on the new production. We will continue to streamline the portfolio. In short, we are taking the steps necessary to compete in a lower price environment. If a lower price environment persists for longer, we will adjust and pursue even more significant cost savings and even greater cuts in capital to continue to lower our cash flow breakeven.

We intend to be a resilient competitor regardless of the price environment.

Okay, that concludes our prepared remarks and we are now ready to take some questions. Please keep in mind that we have a lot of folks trying to get questions in so please limit yourself to one question and perhaps one follow-up if that is necessary. We will do our best to get all your questions answered.

Jonathan, please open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs - Anayst*

Good morning, guys. So just, Pat, wanted to start off on dividend growth and just your thoughts on raising the dividend in 2016. Is that still a priority for the Company? And then how we should think about timing?

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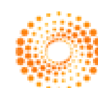

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Pat Yarrington - *Chevron Corporation - Vice President and CFO*

Sure, yes. Sustaining and growing the dividend is still the first priority from a cash use standpoint for the Corporation. It long has been and it continues to be. Obviously our immediate financial environment makes this challenging. We have long said that we will raise the dividend when our cash flow and our earnings allow it to be sustained and obviously in the first quarter, that was not the circumstances that we found ourselves in and therefore a deferral was prudent.

I think going forward, the timing will obviously be dependent upon future cash, future earnings, what happens to price, what happens to our project ramp-ups, how all that plays out in future quarters.

We will also have to take a look at what we think is happening to commodity prices over a longer sweep of time because again, we are looking at the dividend as being essentially a commitment in perpetuity. We are very aware of our 28-year record of consecutive annual per-share payment increases and that will be taken into account. So the Board will take all of this into account as it looks at dividends each and every quarter.

Operator

Blake Fernandez, Howard Weil.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Folks, good morning. When I look at the composition of the upstream earnings, it seems like the US scene is kind of lackluster compared to the international component and to me that is kind of a proxy for short cycle versus long cycle. I was wondering if you could just talk a little bit about how you envision the economics there changing as far as short cycle may be improving relative to long cycle longer-term?

Joe Geagea - *Chevron Corporation - EVP, Technology, Projects and Services*

Okay, let me start by restating that prices were very low in the first quarter. As Pat mentioned, there were a number of one-time events in the first quarter which adversely impacted our production. Going forward we still expect to realize the growth range we provided at our analyst meeting.

The key for us is to really exercise the things within our control and that is to continue to drive costs down and to improve our efficiencies. And we have given several proof points in the past about how much progress we have done in that regard. We are now in full horizontal factory mode in the Permian. We brought our well costs down by about 40% and we have about 4,000 well locations that offer us a 10% rate of return at around $50 WTI. And when you add on top of all of that the royalty advantage that we have, we see our activity in the Permian as being very, very strong.

So the key for us is to continue to be competitive and we do that very well because we also have NOJVs -- so we have a good line of sight on how well other people are operating in the basin, and of course, we screen and base our own economics. And lastly, the royalty advantage give us a tremendous boost here.

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

I would just like to add too that as we lower our operating expenses from a corporate standpoint as well as in terms of organizational efficiencies, you are going to continue to see those benefits come through as well. And I talked earlier about some transitional costs, severance costs being one of those that I would highlight. That impacted the US segment in this particular quarter and as we move through that, you will obviously have stronger earnings once those are concluded.

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Joe Geagea - *Chevron Corporation - EVP, Technology, Projects and Services*

To support Pat, our costs at the center have gone down by 20% and many SBUs in our upstream in particular have gone through tremendous re-organizational changes, and we are going to see the fruit of that over the next few quarters.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Got it. Thank you very much.

Operator

Paul Sankey, Wolfe Research.

Paul Sankey - *Wolfe Research - Analyst*

Pat, you provided on slide 16 an illustration of how you can get back to flat with a $52 assumption and an arrow pointing upwards on price recovery. If that arrow is pointing downwards and you mentioned you would prioritize the dividend and go into further cost savings and further CapEx cuts, how low could you go on CapEx? Can you give us an idea of what the absolute base number is for you guys? Thanks.

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

I don't want to go to an absolute base number. I mean we have given you a range of $17 billion to $22 billion and I think the $17 billion number was low kind of given a representative or a reasonable set of price expectations. But frankly if we find ourselves in a different place, affordability is a paramount consideration here for us and we will continue to prioritize and high grade our opportunities.

Our primary methodology in terms of capital allocation starts from what do we absolutely need to do to maintain reliability, maintain the asset integrity? After we have concluded what that is for the operation, then we build up our capital program after that and we have a great deal of flexibility. So each and every one of those layers of additional spend will have significant hurdles that they have to overcome and affordability becomes an overriding consideration.

So we will continue to manage the capital down commensurate with the price environment. We will continue to push forward with our asset sales.

I mentioned only $2 billion or so line of sight, maybe a little bit more for this year but we see our way clear to the $5 billion to $10 billion program and obviously for us to have confidence in saying it is $5 billion to $10 billion, we've got more lined up behind that because we know not every transaction will be executed in the timeframe that we have outlined. So we feel confident about our ability to get cash balanced at any reasonable price here.

Paul Sankey - *Wolfe Research - Analyst*

That first number that you gave, what is the number? That is not $17 billion is it? The starting point number? That is the number I'm looking for.

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

The $17 billion. (multiple speakers) It was the bottom of the range that we gave for C&E prospectively for 2017 to 2018.

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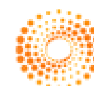

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Paul Sankey - *Wolfe Research - Analyst*

But the number that you said you would start with as an absolute minimum for integrity, that is the number I'm looking for.

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

And we haven't publicized that number. It would be low because it really is just from an asset integrity and asset reliability standpoint. All I can say is the vast majority of our capital program is above that and would give us opportunities for flexibility.

Operator

Ed Westlake, Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

Good morning, Pat. So a key message from the analyst day was obviously as you get these big projects lined up, shift to shorter cycle shale but also monetize the large brownfield opportunity which you already have behind existing facilities that you have built, and you should be much more capital intensive. That is a good thing. On the other hand, your debt burden is clearly going to be much higher. It depends how long the down cycle lasts.

So can you talk a little bit about where you want to end up in terms of debt burden? It is good news that you talked about extra disposal candidates over and above the $5 billion to $10 billion but talk to how you are going to get the debt down to a more usual level?

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

The way I look at this, and the way we look at this, really is that obviously when you're at the peak of a price cycle that is when you want to have restored your balance sheet, have an ultraconservative balance sheet and that allows you to come through a price downturn. Right now we are sitting at a 22% debt ratio. We showed a slide at the security analyst meeting that said we could take somewhere between $25 billion to $30 billion of incremental debt. That would take us up to about a 30% debt ratio. There is nothing necessarily magic about the 30%. It was just an indicative place to do a measurement ourselves versus peers.

But I would see as you go through the lows of a price cycle you would expect your debt burden to increase into the 30%-ish range, maybe a little bit higher on a temporary basis. But if you look through the whole cycle, I think a good place for a Company like Chevron with projects that we take on, our size, our scale, our scope would be probably in the low 20s through the cycle, but getting into the 30%-ish range we could handle that if it is temporary.

Ed Westlake - *Credit Suisse - Analyst*

And then a very quick one just on the actual costs, were there any sort of restructuring charges affecting the cash or anything else that we should focus on in terms of the cash generation? Was it more in line with the macro sensitivity that you would have expected?

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

Yes, I would say cash from operations was low this quarter operationally obviously because of crude price, but we did have the working capital consumption of about $1 billion and then there were several items that were not particularly ratable. Pension contributions were one of those, affiliate dividends weren't particularly ratable as well.

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Operator

Doug Leggate, Bank of America Merrill Lynch.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Good morning, Pat. Good morning, Frank. Good morning, Joe. I guess this is kind of a follow-up to Ed's question because the question seems to be coming up for a lot of the industry right now is when do you start re-upping spending in contrast to when do you or how far do you repair your balance sheet? Obviously with companies of your size, the issue is long cycle capital projects. In light of your comments about the balance sheet getting up into the 30s, should we think about you as in kind of harvest mode until you get that balance sheet back to where you want it to be? And I wonder if you could just characterize for us what your appetite is for large-scale new project sanctions and obviously in the top of my mind is Tengiz.

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

So I will just go back to our cash flow priorities. Dividend is number one, reinvesting in the business number two and then a prudent financial structure, strong balance sheet is number three. By virtue of the opportunities we have ahead of us in terms of moving towards more short cycle, frankly all of the advantages that we have in the Permian, we have growing capital flexibility. So we will see shorter cycle movement there and that obviously puts less of a strain on your balance sheet because you can adjust those as conditions permit.

But we are going to continue to go forward with major capital projects and FGP is the poster child for that. That is an important project for us, an economic project for us to go forward with and we will continue to do those. So I think of it as being over time a better balance between short-cycle opportunities and long-cycle opportunities.

We are coming off a period that was significantly weighted by long duration, highly capital intensive projects, and we are moving the portfolio now, our investments now to a better balance between those. So I think we have got a tremendous amount of flexibility to not only reinvest in the business in short cycle, take on selective high graded wonderful projects like FGP, but also then have opportunity to restore the balance sheet.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Okay, thanks for the answer, Pat.

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

Those balancing activities will all be part of our balancing considerations as we go forward.

Doug Leggate - *BofA Merrill Lynch - Analyst*

There is no debt target as such then?

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

There is no debt target as such.

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Doug Leggate - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

Good morning, guys. I know there has been an increased focus on project execution and emphasized on the third-quarter call from John and the analyst day more engineering and less reliance on third parties and more oversight. Maybe Joe, because you are on the call today, how do these plans increase your confidence in the ability to improve execution as you deliver this broader slate of projects and where are the biggest areas for continued improvement or execution risk as you bring them online?

Joe Geagea - *Chevron Corporation - EVP, Technology, Projects and Services*

I will start by acknowledging that we do some things well. We have delivered good projects. We have Jack/St. Malo. We have the Bibyana expansion. We have Agbami 3. These are three recent examples where we actually delivered on cost and schedule. Having said that, we and the industry have learned a great deal over the last few years, and the only thing we can do is to actually take those learnings and apply them on future projects.

Gorgon Trains 2 and 3 and Wheatstone Trains 1 and 2 will benefit from all the learnings on Angola LNG and Gorgon Train 1. All the things -- the initiatives that were highlighted at the analyst meeting -- in terms of what it takes to actually improve our chances of execution, we are committed to doing those. We are moving a lot of things in house. We are going to focus on design and engineering. We are going to assure those designs. We are going to pick the right contractors. We are going to work hard on the right contracting strategy. We need to get projects ready for execution, and we are applying all of those on FGP and recall the slide that we had back in March. FGP is going to be wonderful for us because it is countercyclical.

We are going to go into a period where there is capacity in the industry. We are going to go into a period where we will have the right organizational capability working on those projects, and I think it is a tremendous time for us to actually deliver better on those projects. We will have lower execution risk as well on the base shale and tight.

We have done look-backs on our short-term investments, and we don't talk about them that much but they actually beat the expectations always. So as we move into short cycle, we are very confident delivering those as we take the learnings on the MCPs. Whether it is FGP or other projects we are considering doing, I believe our chances of improving execution and delivering those projects should be improved.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays Capital - Analyst*

Good morning, guys. Joe, just curious, I think a lot of people sort of comment especially in the US shale, their supply cost deflation may be coming pretty close to a bottom. So I don't know whether you agree. And I also want to see if you do, does it make sense now to start to lock in the supply cost curve given that it may be close to a bottom, and how far you guys may be willing to do it?

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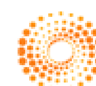

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Joe Geagea - *Chevron Corporation - EVP, Technology, Projects and Services*

Thanks for the question, Paul. I agree with you. I think our opportunity is to work with suppliers and to see if we can have an arrangement that actually gives us a better shot at cost, and we are already having those conversations with our suppliers.

Now key to this is how much capital are we going to put into those activities and as Pat said, we have to consider all the lenses before we commit capital. Our intention is to move in that direction. I believe we have the organizational capability to deliver on this, and the conversation we are having with our suppliers tell us that we can do so.

And those conversations with respect to locking in rigs and material give us greater confidence that we can sustain some of the savings and the efficiencies that we are seeing right now. So we are exactly working on the kind of things you are suggesting.

Paul Cheng - *Barclays Capital - Analyst*

Can you comment in terms of what kind of extend that you are willing to do lock in for your expected 50% of your supply requirement for the next five years or lock in for three years, five years. Any kind of the magnitude that you can share?

Joe Geagea - *Chevron Corporation - EVP, Technology, Projects and Services*

All I can tell you is it takes also the supplier to be willing to have those conversations. We clearly have talked about one year, two year, potentially three years in certain areas on rigs, and we are willing to consider that. But like I said, they are going to depend on the program that we have, the pace in which we want to invest, but all of those are on the table, and I think the suppliers are increasingly willing to have that discussion with us. And, they are going to see us with the position that I described earlier in the Permian as a key customer for them.

They are going to view those relationships more strategic. They are going to be willing to work with us on everything in the contracts -- it is not just the rate that is important. There's a lot of other clauses in the contracts that are importable. So they will see us as a reliable customer with a commitment to the region, and they clearly want to do business with us.

Operator

Phil Gresh, JPMorgan.

Phil Gresh - *JPMorgan - Analyst*

Just a follow-up on the asset sales commentary, you had talked about $2 billion or so for this year and so it kind of back-end loads the high-end of the $5 billion to $10 billion target. So maybe any additional color you would have on whether the oil price environment or the asset sale environment in any way kind of pushes you towards the low end or high end of that range? How are you thinking about it now?

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

I think what we are really just seeing is acknowledgment that some of these transactions take much longer to close for regulatory approval reasons or whatnot than you might think. And so we are just being cautious in terms of the guidance that we are giving not only in terms of the $5 billion to $10 billion. We feel that is executable, those are transactable but pinning it down to whether it is going to happen in the next nine months is very hard for us to say at this point. We have a number of transaction activities underway and getting the precise timing as to whether it closes in 2016 or it closes in 2017 is where the difficult challenge lies. They can be very lumpy.

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I do agree, it is back-end loaded for this year, we believe, but I think it is also likely to be back-end loaded for the 2016 to 2017 time period. Overall we still have confidence in that $5 billion to $10 billion range that we have indicated for the two years.

Phil Gresh - *JPMorgan - Analyst*

Understood. How much is locked in for 2Q by the way?

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

Won't give a number completely for 2Q. I will just say again for line of sight for this year, we anticipate somewhere around $2 billion, maybe a little bit more. Don't want to get precise on the quarters though. I feel good about April because it is almost closed but I don't want to get any more precise than that.

Operator

Doug Terreson, Evercore ISI.

Doug Terreson - *Evercore ISI - Analyst*

Today's commentary seems to emphasize that cost productivity and asset sales and performance from new projects is going to lead to a stronger cash flow for Chevron and that seems pretty reasonable to me. And on this point -- I have two questions. First, for clarification, does the divestiture under consideration in Myanmar represent the majority of the position in that country?

The second question is somewhat different -- if the industry does recover and free cash flow does materialize, the question is whether there are likely to be changes to Chevron's capital priorities over the medium-term? And I ask this question because I think Pat talked a few minutes about greater focus on returns being likely in the future. But I don't think much was said about how share repurchases might play into the mix. So just wanted to see if we could get some color on the capital management priorities and how that might change over the medium-term if they do at all?

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

I don't really see our priorities changing over the medium-term. We are consistent in how we use the cash and the priorities we have for that. We have laid out the investment program not only for the rest of this year but for 2017 and 2018 where it is a shift to the shorter cycle investments. There will be selective major capital projects that get pushed into the portfolio, pushed into the queue. FGP is obviously the headliner on that.

I don't see share repurchases coming into play in the medium-term here. That is the last use of cash and I don't see us being in a position where that would be a relevant item for us in the medium-term.

In terms of Myanmar, it is a full exit.

Doug Terreson - *Evercore ISI - Analyst*

Okay, great. Thanks a lot, Pat.

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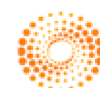

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Operator

Roger Read, Wells Fargo.

Roger Read - *Wells Fargo Securities - Analyst*

Just to follow up on the $52 laid out for 2017 and kind of the expectation I guess of cash flow neutrality, the CapEx $17 billion to $22 billion, should we think of the asset sales as what impacts the range of CapEx if the price were to average $52 in 2017 or what are some of the other factors there?

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

I think you are asking about the capital flexibility we have between the $17 billion versus the $22 billion.

Roger Read - *Wells Fargo Securities - Analyst*

And if oil were $52, what would then determine $17 billion versus the $22 billion? I understand the range. I'm trying to understand what would affect which part of the range and whether or not asset sales are part of that assumption?

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

Okay. So the overall objective is to get balanced in 2017 and obviously if we are falling short on asset sale proceeds for a reason or other, we would want to take that into account in determining what the capital outlays are because it really is the objective to get balanced. So there would be a trade-off potentially there if we weren't seeing the execution on asset sales. We don't anticipate that being the case however.

In terms of the prioritization though, let me just go back to the logic and the process that we have for building up the capital program. We start with the asset integrity and reliability foundation and then each and every layer of projects above that competes on its merits on a returns focused kind of basis. And we will balance the short-cycle investments and we will balance initiation and commitment to larger longer-cycle capital projects.

Again the only one of size that is queued up here in the near-term would be Future Growth Project. So we will take all of that into account. The overarching objective though is to get balanced on cash in 2017.

We continue to be very focused on capital discipline and so there will be high hurdle rates for all of the projects coming forward for possible inclusion in the capital budget.

Operator

Anish Kapadia, TPH.

Anish Kapadia - *Tudor, Pickering, Holt & Co. - Analyst*

Just had a question looking at some of the pre-FID projects. I was wondering if you could give an idea of where the oil price breakeven has come down to for some of these key projects such as the Tengiz complex, some of your other lower tertiary discoveries in the Gulf of Mexico and also Rosebank in the UK.

The second question was just looking at returns, I was just wondering if you look at things internationally, does anything come even close on a risk-adjusted basis to the Permian? That is when you kind of take into account the higher geological fiscal political risk. Just wondering how you look at that capital allocation? Thank you.

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Joe Geagea - *Chevron Corporation - EVP, Technology, Projects and Services*

I will take the deepwater question first. Just to put it in context, we are already producing about 140,000 barrels a day in the Gulf of Mexico in the deepwater and we do that through five operated assets and four non-operated assets. We are also the largest leaseholder in the Gulf. So in the near-term with that footprint, we do see many brownfield deepwater opportunities. In fact, 80% of our spend -- development spend -- over the next few years is going to be geared towards brownfield development such as Jack/St. Malo and Tahiti where we actually have good economics. We have already said the single well breakeven is typically in the $20 to $40 Brent range.

We have also demonstrated tremendous improvement in drilling and completion efficiency so we continue to bring the cost equation down.

Now if we are talking about new greenfield development, we've got a few things that need to happen there. Obviously we need scale in the resource but we also need to rethink about how we bring our development. We talked before about optimizing our development concept where we could be trading lower plateau and maybe NPV for greater capital efficiencies. And this is another place where we actually need our suppliers. We need to work closely with them to continue to drive the cost down.

This is an important area for us to be good at and we are committed to do that.

Now in terms of how does the Permian compete? We can't just be a Permian company. We have a lot of other places where actually we have good resources. We talked about Tengiz, we talked about Thailand, we talked about Indonesia. Australia is going to give us those opportunities. So yes, while the Permian give us tremendous advantage, the size of our Company will require us to actually be broader and to put our capital in places where we can get good economics but not to be solely a one asset class company.

Operator

Brad Heffern, RBC Capital Markets.

Brad Heffern - *RBC Capital Markets - Analyst*

Good morning, everyone. I guess with Gorgon coming very close to the finish line at this point, I was wondering if you can give an update on ultimately where the costs are expected to land for that project and also if on Wheatstone you are still using the same budget?

Joe Geagea - *Chevron Corporation - EVP, Technology, Projects and Services*

I will start with Wheatstone. We are still operating under the same funding appropriation which we have communicated to you previously. We do acknowledge we have seen cost pressures but at the same time these have been offset by favorable foreign exchange. We are working very hard to mitigate those cost pressures. Earlier this week we had a good review of that project and we are very encouraged by the progress. I alluded to that in my prepared remarks.

So the progress we make over the next eight to 12 months will be very important in terms of where we are going to end up but for now, there is really no reason to change our view on the cost. AAgain, Wheatstone is a huge resource base for us and it is very important to deliver it.

Now in terms of Gorgon, we have seen cost pressures in Gorgon but at the moment really we are not going to change the cost estimate that we have provided previously.

Operator

Pavel Molchanov, Raymond James.

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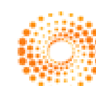

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Luana Siegfried - *Raymond James & Associates - Analyst*

This is Luana Siegfried in for Pavel. Good morning, thank you for the call. I have two quick questions on the US production. So I was wondering if you could share a little bit more details in the US production which grew only by 0.4% year-over-year even with Jack/St. Malo and solid production from the Permian?

Frank Mount - *Chevron Corporation - General Manager, Investor Relations.*

I'm sorry, this is Frank. Could you please repeat that? I was confused by the question.

Luana Siegfried - *Raymond James & Associates - Analyst*

Sure, Frank. I was just wondering like which plays that are actually in the US are offsetting the growth factors like Jack/St. Malo or the Permian?

Frank Mount - *Chevron Corporation - General Manager, Investor Relations.*

So can I repeat? I think you are basically saying where are we seeing some base declines in the US that offset the growth we have in the MCPs?

Pat Yarrington - *Chevron Corporation - Vice President and CFO*

A piece of that obviously is coming from asset sale divestitures if you are looking at first quarter to first quarter. A significant piece of Gulf of Mexico multiple asset divestments occurred.

Luana Siegfried - *Raymond James & Associates - Analyst*

Perfect. And if I may have just another quick one in the US. Do you have any updates on Bigfoot, the latest startup for the production?

Joe Geagea - *Chevron Corporation - EVP, Technology, Projects and Services*

Is the question about Bigfoot?

Luana Siegfried - *Raymond James & Associates - Analyst*

Yes.

Joe Geagea - *Chevron Corporation - EVP, Technology, Projects and Services*

There is no change from the prior guidance we gave and that is the second half of 2018.

Frank Mount - *Chevron Corporation - General Manager, Investor Relations.*

Thank you.

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Pat Yarrington - *Chevron Corporation - Vice President and CFO*

It looks like that concludes the lineup of questioners. So thank you very much. I want to thank everybody for their time today. We appreciate your interest in Chevron and appreciate your participation. Jonathan, I will turn it back to you.

Operator

Ladies and gentlemen, this concludes Chevron's first-quarter 2016 earnings conference call. You may now disconnect.

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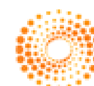

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