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CVX - Q4 2012 Chevron Earnings Conference Call

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OVERVIEW:

CVX reported 2012 earnings of $26.2b or $13.32 per diluted share. 4Q12 earnings were $7.2b or $3.70 per diluted share.

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Ed Westlake *Credit Suisse - Analyst*

Allen Good *Morningstar - Analyst*

John Herrlin *Societe Generale - Analyst*

Pavel Molchanov *Raymond James - Analyst*

PRESENTATION

Operator

Good morning, my name is Sean and I will be your conference facilitator today. Welcome to Chevron's fourth-quarter 2012 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 would now like to turn the call over to the Chairman and Chief Executive Officer of Chevron Corporation, Mr. John Watson. Please go ahead, sir.

John Watson - *Chevron Corporation - Chairman & CEO*

Thanks, Sean. Welcome to Chevron's fourth-quarter earnings conference call and webcast. On the call with me today are Pat Yarrington, our Chief Financial Officer, and Jeff Gustavson who is the General Manager of Investor Relations. We will, of course, refer to slides that are available on Chevron's website.

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

Turning to slide three I want to begin where we always do, with safety. We continued to achieve world-class low industrial injury and illness rates. We had our lowest-ever days away from work rate and once the data is finalized we expect to again lead the industry for the second consecutive year on this measure.

We are also focused on process safety with many successes. Last year we had our fewest number of spills ever, which translated to record low spill volume. We believe this, too, will be the best in the industry.

Having said this, it was not a perfect year. We do believe that zero incidents is attainable. We are not there yet, but we are striving to learn and improve to get to incident-free operations.

Our financial performance in 2012 was quite strong. We expect when all the 2012 results are in to again post the highest Upstream earnings per barrel by a significant margin and to be very near the top in Downstream earnings per barrel as well. These excellent financial results validate our strategies and the many past investment decisions.

I would like to summarize just a few additional accomplishments from last year. In our Upstream business we are steadily progressing our major capital projects. The Gorgon project was over 55% complete at year-end and Wheatstone has made good progress as well, both from a construction standpoint and in securing offtake commitments through several new long-term LNG supply agreements.

We have just posted a short video of recent Gorgon construction progress on our webpage, Chevron.com. I encourage you to take a few minutes to view the video. The progress is quite impressive.

We also continued construction activities on our projects in the deepwater Gulf of Mexico where Bigfoot and Jack/St. Malo are both on budget and on schedule for start-up in 2014. We achieved start-up at Usan and Agbami Phase 2 developments in Nigeria as well as Caesar/Tonga, Tahiti-2 deepwater projects in the Gulf of Mexico.

We continued to expand our discovered resource base with asset acquisitions in the Delaware Basin in the US and in Western Canada through an agreement to join the Kitimat LNG project. We also grew our exploration portfolio by acquiring positions in several new areas, including the Kurdistan region of Iraq, Suriname, Sierra Leone, Lithuania, and the Ukraine. Our reserve replacement ratio was 112% with adds distributed broadly across our Upstream portfolio.

In our Downstream business we completed our three-year restructuring plan and have delivered on the commitments made when we first began simplifying our business, streamlining our portfolio, reducing costs, and improving returns, all while retaining scale where we have competitive positions. We also continued to make progress on key growth projects in our lubricants and chemical businesses.

We are very proud of our performance this past year. With that I will turn it over to Pat who will take you through our financials. Pat?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Thank you, John. Slide four provides an overview of our financial performance.

The Company's fourth-quarter earnings were $7.2 billion, or $3.70 per diluted share. For the year earnings were an impressive $26.2 billion. This equates to $13.32 per diluted share, nearly tied with 2011's record performance.

Return on Capital Employed for the year approached 19% and our debt ratio at year-end was 8.2%. 2012 marked our 25th consecutive annual dividend increase with an 11.1% rise in the quarterly rate. This demonstrates our confidence in our future performance and is consistent with our priority of rewarding our 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 $5 billion. In the first quarter of 2013 we expect to repurchase the same amount, $1.25 billion of shares.

Finally, Chevron's 2012 TSR was 5%. We continued to lead our peer group on total shareholder return for the three-year, the five-year, and the 10-year period, as well as all periods in between. You probably noticed we are also off to a strong TSR start so far this year.

Turning to slide five, cash generated from operations was $12.9 billion during the fourth quarter. For the full year cash from operations was nearly $39 billion, reflecting our impressive operating performance and the cash generating strength of our portfolio.

At year-end our cash balances totaled $22 billion. This kept us in a net cash position of about $10 billion at year-end. Our strong cash flow and solid balance sheet continued to be a competitive advantage.

Now on slide six I will compare the results of fourth quarter 2012 with the third quarter of 2012. As a reminder, our earnings release compares fourth quarter 2012 with the same quarter a year ago. Fourth-quarter earnings were $7.2 billion, nearly $2 billion higher than third-quarter results.

Upstream earnings increased $1.7 billion, reflecting increased gains on asset transactions and higher liftings. Downstream results were up $236 million between quarters, driven by favorable inventory effects and gains on asset transactions. The variance in the Other bar reflects a favorable swing in corporate tax items partially offset by higher corporate charges.

On slide seven our US Upstream earnings for the fourth quarter were $241 million higher than the third quarter's results. Higher realizations improved earnings by $40 million, driven largely by a 22% increase in natural gas realizations. Higher production volumes increased earnings by $85 million between periods, reflecting recovery in production post- Hurricane Isaac in the Gulf of Mexico and increased production associated with recently acquired acreage in the Permian Basin.

The Other bar reflects a number of unrelated items including favorable tax impacts and the net effect of small asset transactions.

Now on slide eight, International Upstream earnings were about $1.5 billion higher than the third quarter. Higher liftings increased earnings by $295 million. Planned turnarounds in Kazakhstan and in the UK in the third quarter were completed and production from these fields returned to normal levels in the fourth quarter.

Realizations increased earnings by $95 million, reflecting a 2% improvement in average liquid realizations in line with the increase in Brent prices. A favorable swing in foreign currency effects improved earnings by about $220 million. The fourth quarter had a loss of about $30 million compared to a loss of $250 million in the third quarter.

Asset sale gains increased earnings by a net $830 million. Fourth-quarter results included a gain of $1.4 billion from the previously announced asset exchange in Australia, while the third quarter contained a gain of $600 million associated with the sale of an equity interest in the Wheatstone Project. The Other bar reflects a number of unrelated items, including lower exploration expenses.

Slide nine summarizes the quarterly change in Chevron's worldwide net oil equivalent production. Production increased 152,000 barrels per day between quarters. Recovery from the impacts of Hurricane Isaac in the Gulf of Mexico increased production by 23,000 barrels per day.

Absence of planned turnaround activity, primarily in Kazakhstan and the UK, increased production by 94,000 barrels a day.

The base business bar includes higher cost recovery volumes and production from newly-acquired acreage in the Permian Basin partially offset by normal field decline. Production from major capital projects increased in the fourth quarter by 7,000 barrels a day, primarily driven by the ramp up of Perdido in the Gulf of Mexico.

Slide 10 compares full-year 2012 net oil equivalent production to that of 2011. Production decreased by 63,000 barrels per day in 2012. Frade remained shut-in for the year reducing daily production by 29,000 barrels.

The Base Business and Other bar reflects normal field declines as well as the impact of smaller asset sales. Our base decline rate for the year was approximately 4%, in line with prior guidance. Incremental production for major capital projects contributed 85,000 barrels a day, driven by the ramp-up of Platong II gas project in Thailand and Perdido in the Gulf of Mexico as well as the start up of Usan in Nigeria.

Our original production guidance for 2012 was 2.68 million barrels of oil equivalent per day. We fell short of that guidance by 70,000 barrels per day predominately due to the shut-in of Frade and the delays experienced with the start-up of Angola LNG.

Turning to slide 11, US Downstream earnings decreased $125 million in the fourth quarter. Realized margins decreased earnings by $90 million driven mainly by weaker refining margins on both the Gulf and West Coast due to lower demand and higher seasonal gasoline inventory levels. Improved marketing margins only partly offset the decline in refining margins.

Volumes reduced earnings by $30 million, primarily due to the continued shutdown of the Richmond, California, refinery crude unit. A return to normal operations at the Pascagoula, Mississippi, refinery post-Hurricane Isaac partly offset the decrease.

Inventory effects represented a $95 million improvement in earnings between quarters, largely reflecting favorable year-end LIFO effects. Operating expenses increased $100 million largely due to higher maintenance, transportation, and environmental-related expenses.

On slide 12 International Downstream earnings improved $361 million this quarter. Higher realized margins benefited earnings by $60 million. Lower crack spreads in Asia were more than offset by improved marketing margins and pricing lag effects for sales of naphtha and jet fuel in key markets.

Inventory effects represented $145 million improvement in earnings between quarters, mostly reflecting the absence of negative inventory impacts during the third quarter. Gains on asset sales, combined with the absence of charges associated with the portfolio restructuring in Australia in the third quarter, improved earnings by $210 million.

The Other bar reflects a number of other unrelated items, including unfavorable swing in foreign exchange impact.

Slide 13 covers All Other. Fourth-quarter net charges were $538 million compared to a net $575 million charge in the third quarter, so a decrease of $37 million between periods. A favorable swing in corporate tax items resulted in a $99 million benefit to earnings while corporate costs were $62 million higher this quarter.

For the full year, this segment had net charges of $1.9 billion, which is higher than our quarterly guidance range of $300 million to $400 million. Given the number of discrete items that impacted this segment in 2012, we are upping our guidance range for 2013 to $400 million to $500 million per quarter to reflect several miscellaneous items, including increased environmental remediation costs and higher corporate expenses.

With that I would like to now turn it back over to John for a few thoughts on 2013.

John Watson - *Chevron Corporation - Chairman & CEO*

Thanks, Pat. Let's turn to slide 14.

In early December we announced a $36.7 billion capital program for 2013. Our capital program is well-aligned with our long-stated strategy of investing in attractive projects that will deliver volume growth and value growth for our shareholders. The program supports continued progress at several large Upstream projects under construction, notably our legacy LNG projects in Australia and our deepwater Gulf of Mexico developments.

Continued investments in our current project queue is expected to drive profitable growth through the end of the decade. We are also increasing our exploration activities, including the initial appraisal of recently acquired acreage in the Kurdistan region of Iraq, Suriname, Sierra Leone, and several international unconventional plays, among other areas.

Our Downstream investments for 2013 are directed toward our premium base oil facility at our Pascagoula refinery, expanded additives production in Singapore, and our projects which will enhance the reliability and flexibility of our global refining system. Additional projects will be funded by affiliates in our refining and chemicals joint venture.

Turning to slide 15, our net production outlook for the year is 2.65 million barrels of oil equivalent per day, an increase of about 1.5% from 2012 levels. This is based on average Brent price of $112 per barrel, the same average price as 2012, and does not assume OPEC curtailments, material security, or market impacts.

Our full-year estimate for 2013 is about on par with our fourth-quarter 2012 production. The start-up of Angola LNG as well as increased production from the deepwater Gulf of Mexico, Thailand, and Nigeria are expected to roughly offset base business decline and normal turnaround activities later in the year.

Although we expect restart production at the -- to restart production at the Frade field in Brazil, it will not contribute materially to this year's net production. Base business decline is still expected to be about 4%.

Our 2017 production target remains intact at 3.3 million barrels per day. In fact, over 90% of the volume contributing to the target is either currently producing or under construction with the remaining volume well understood. We will keep you posted through the year on developments and progress in both our Upstream and Downstream businesses. We also plan to provide a great amount of additional detail at our upcoming Security Analyst Meeting in early March.

That concludes our prepared remarks. We now welcome your questions. We do have a full queue, so please limit yourself to one question and a single follow-up if necessary. We will do our best to see that we get your questions answered.

Sean, please open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

Morning, everybody. John, I believe you guys hold over 950,000 acres in the Delaware Basin inclusive of last year's asset acquisition and a larger position in the Permian total, making Chevron one of the larger acreage holders yet running fewer rigs than some of the peers. So how many unconventional rigs are you running?

And maybe you can discuss planned activity ramp in 2013 and whether or not there is any internal constraints for you, whether you are limited at all on the people side to accelerating this NAV realization? I have a second question, please.

John Watson - *Chevron Corporation - Chairman & CEO*

We are ramping up rig activity. In fact, we are just looking at some of the material we are going to show you for the SAM (Security Analyst Meeting) meeting that is coming up. We will give you actually some pretty good rig count data.

What you will see is we are ramping up rapidly in the Delaware Basin as you would expect. We have got really over 20 in the Permian region that are running right now. We will give you more specifics about the ramp up that is headed there.

Activity in a fewer number of rigs are running up in the Marcellus region, but that, too, has been gradually ramping up. As you know, we are still drilling gas prospects there as we have the carry that we are working through. We will be happy to give you a lot more detail with precision on the number of rigs. We are seeing volume growth in both of these areas that are a part of the plan going forward.

You had a follow-up?

Evan Calio - *Morgan Stanley - Analyst*

Yes. I just was curious within that if you saw any internal constraints, meaning you are able to organically to ramp those volumes.

John Watson - *Chevron Corporation - Chairman & CEO*

Well, we are. Having said that I think the industry is very focused on building organizational capability. We have added a significant number of new people and added to our drilling training programs that we have in place both in the United States and overseas.

And so organizational capability, we are not going to operate if we don't have people that we think are trained and capable. I think there are pressures on the industry, but when we plan to ramp up we only plan to ramp up if we have the right people.

Evan Calio - *Morgan Stanley - Analyst*

Understood. My second question was, John, I noticed one of your favorite topics, as well as Pat, is the Ecuador litigation. I know there has been some positive movement there in the most recent quarter. We have read the judge directly implicating himself in improper conduct as well as plaintiff, but also your legal involvement is spreading across the globe now in Argentina and Brazilian courts as well as US and Canada and the Hague.

So I was wondering if you could just provide any roadmap for activity in 2013 in these various theaters of operation and when the RICO case is set to commence. And I will leave it there, thanks.

John Watson - *Chevron Corporation - Chairman & CEO*

Sure. That is a broad question and I will try to do it succinctly.

First, your premise is correct. We continue to uncover evidence of quite profound fraud in the case. You mentioned that a judge that was actually involved in ghostwriting the opinions based on bribes he was receiving from the plaintiffs' lawyers has come forward and given a statement in US courts and has provided corroborating physical evidence to support his allegations that he ghostwrote the opinion for the plaintiffs' lawyer.

So you now have a circumstance where we have through videos, through sworn testimony, through e-mails and other means clear evidence that the plaintiffs' lawyers have thoroughly corrupted the judicial process in Ecuador and this is an invalid opinion.

I think that is pretty well known by you and others out there. I think the question is, well, how do you bring this thing to an end, and I would say that we are moving forward in several areas.

The RICO case, the wheels of justice movement at a certain pace. We have been moving our RICO case forward; it will go to trial in New York in October of this year. We are actively in the courts in the Hague.

We expect there are a series of rulings that will take place over time, but we have won virtually every procedural ruling there and expect that we will see some --. There have already been some judgments that have been put out indicating, for example, that the government of Ecuador should do everything in their power to prevent this false judgment from being enforced, which, of course, they have ignored. And so we do expect that there will be possible rulings out of that panel as well.

But there are multiple stages to those cases. We have had multiple discovery proceedings in the US. The area that you are probably interested in is the -- we believe it is an illegal verdict but the plaintiffs' lawyers are taking it and trying to use that judgment for recoveries in other countries.

Our view has been that any country that honors rule of law will not uphold this verdict and, in fact, will throw it out. Having said that we have to defend ourselves and so we are doing it in Canada, Argentina, and Brazil.

You should know that these cases take time. There are a number of procedural steps that take place and so, first, there are jurisdictional issues that are worked. It takes a while, if you ever get through those hoops, to get to the merits. Our view is that when there has been a fraud committed by the court that no government with a functioning judiciary is going to uphold this and the countries where these enforcement actions have been filed, we think, ultimately will support rule of law.

But we have to fight in every step of the way and I can't put a timeline on that. What I can tell you is we are not going to reward people that have committed crimes against us.

Evan Calio - *Morgan Stanley - Analyst*

I appreciate it. Thank you for the update.

Operator

Paul Sankey, Deutsche Bank.

Paul Sankey - *Deutsche Bank - Analyst*

Good morning. Again on the cash pile, I am still perplexed by why it is so large subsequent to the Gorgon CapEx announcement. John or Pat, could you just remind us again why we are holding so much cash on the balance sheet in this interest rate environment? Thank you.

John Watson - *Chevron Corporation - Chairman & CEO*

Sure, Paul. We have talked about the priorities for our cash and I will just -- for the benefit of everyone on the line, I will just repeat them.

Our uses of cash are geared toward paying and sustaining and growing the dividend, funding the capital programs that are required to make our earnings and cash flow grow, keeping some capacity on the balance sheet for the ups and downs in the commodity markets and changes that can take place in the business, and, finally, returning cash to shareholders through repurchases. And that has been our strategy for a long, long time.

You are correct; we have more cash than debt on our balance sheet. But I think if you look at our capital program that we have announced this year where the cash portion of the C&E is about $33 billion, if you look at the cash that we generated this year -- and you can use your own estimate of what commodity prices and margins are going to be -- it would be pretty easy to add at the current rate of dividend and repurchases some $12 billion in distributions and see that our net cash balances will come down this year based on a reasonable forecast.

I will tell you that between now and the end of 2014 you should see our net cash less debt, that net number that we talk about, will come down over time. I don't know exactly what commodity prices will be during that period, but it will come down through a combination of significant capital spending, which we have underway this year and next; dividends; and repurchases that we will size to get our balance sheet back down to something with a little more net debt on the balance sheet than we have had previously.

We have had a conservative balance sheet. Prices have been a little bit higher than we had expected, but we know that there are uncertainties out there and we think that is the best way to run our balances at this point.

Paul Sankey - *Deutsche Bank - Analyst*

Thank you, John. John, you have said you are relatively bullish on oil prices and you like the shape of your portfolio. There is a US oil revolution underway and you do seem relatively underweight in that area which is, after all, your own backyard. What is your appetite to step up your exposure to US oil? Thank you.

John Watson - *Chevron Corporation - Chairman & CEO*

Sure. We are investing in a big way in the United States, of course, offshore with our developments at Jack/St. Malo and Bigfoot and the exploration program that we have in the Gulf of Mexico. I think you are probably referring to some of the onshore activity.

Again, we have had a long-standing position in California that produces oil. We have had a mature business and a lot of acreage in West Texas. And then we have recently added to that with the acquisition where we picked up some acreage in New Mexico from Chesapeake.

Our unconventional production -- we told you last year that our unconventional production around the world would be 175,000 barrels a day by 2017. That a not insignificant portion of the increase in our production between now and 2017 would be in the unconventional area and a lot of that is in the United States. I think what you will see when we come back for the SAM presentation in a month or so is that number will be higher. It will be a function of the ramp-up of activity in the Permian area as well as some successes that we expect to see in the Marcellus and in the Utica.

I will tell you we tend to be returns focused when we make investments and I will tell you right now a lot of what we see -- a lot of transactions come across our desk, but we take on opportunities where we think on a full-cycle basis, including the acquisition costs, we can generate solid returns. And right now there are assets that are selling that we think are very pricey.

Now we feel very good about the acquisition of acreage from Chesapeake; that was a complex transaction. We think we negotiated a good deal there. We feel particularly good, although it is not oil, we feel particularly good about the transaction in Canada. It is an enormous resource that we have picked up that ultimately will produce LNG for export that will be at oil-linked pricing.

And so we feel pretty good about the way we have added to our portfolio given all the opportunities that we have around the world.

Paul Sankey - *Deutsche Bank - Analyst*

Sure. Conceptually would you prefer the Bakken or the Permian?

John Watson - *Chevron Corporation - Chairman & CEO*

I prefer an area where we can make a good return, being very honest. We don't have a position in the Bakken. I think I have said before if I could wind back the clock and see that well it would be nice to have a position.

But it is very pricey right now. To just pour a bunch of capital in there and enter that fray I don't know that we could make full cycle economics look very good.

Paul Sankey - *Deutsche Bank - Analyst*

Thank you, John.

Operator

Jason Gammel, Macquarie.

Jason Gammel - *Macquarie Research - Analyst*

Thanks very much. I just had a couple questions on LNG if I could please. First of all, revisions to the Gorgon budget are now out in the marketplace and, John, I just wanted to -- or Pat -- just ask what potentially you have learned from the Gorgon process that you will be able to apply to Wheatstone to potentially keep the cost of that project more in line with the original budget?

John Watson - *Chevron Corporation - Chairman & CEO*

Fair question. If you look at the Gorgon project, when we went to FID back in 2009 oil prices were in the $60s. The Australian dollar was I think $0.86 or so. And we don't hedge foreign exchange exposure because we think the Australian dollar is pretty well hedged to commodity prices, and that actually has proven to be accurate.

So part of the increase that you saw in cost was from foreign exchange. In fact, about a third of the cost increase. The areas where we had some challenges were really in the area of logistics and that was fairly unique to Barrow Island where some of the quantities of materials proved to be larger than expected.

And the logistics -- there is a large fleet of vessels moving goods and materials on to Barrow island and we have learned from that. In terms of things that triggered the cost increases at Gorgon I think we have learned well about the logistics, but Wheatstone is an onshore project. It is not on Barrow Island, so I think the circumstances are just a little bit different.

Some of the learnings that are key to us are that you better get your infrastructure in order. So, for example, we are working very hard right now on simple things like beds and roads and infrastructure, and that is going quite well at Wheatstone.

At times we were impacted by weather as we were constructing the beds and other facilities and infrastructure in the early days of Gorgon. There were a number of cyclones that went through the area and that impacted us. So we know that infrastructure is critical path and we are working very hard there.

Now there are a number of other learnings and synergies, if you will, that will come from the people and procurement and other activity on Gorgon that, of course, will be applied to Wheatstone. So we are doing our best to learn from Gorgon and other projects as we move forward.

Now remember Wheatstone went to FID at parity with the Australian dollar, so I don't expect a material impact from foreign exchange as we have seen in Gorgon today.

Jason Gammel - *Macquarie Research - Analyst*

Sure. John, if I could just follow up, please, on a comment that you made about oil-linked pricing for the Kitimat project. That might be considered somewhat of a controversial remark in that some buyers are trying to push away from oil-price linkage.

Can you just comment on what you are seeing in your conversations with buyers about the ability to sustain that oil linkage?

John Watson - *Chevron Corporation - Chairman & CEO*

Well, as soon as it was announced that we were coming into that project our phones started ringing. So buyers -- we are a credible buyer in the marketplace and I think buyers throughout Asia -- Japan, Korea, etc. -- are very interested in Chevron and interested in the project.

I'm going to show you a little bit of information at the SAM coming up in a month or so because there is a lot of talk about the different pricing for LNG. There is always a balance between supply and demand. What we see is continuing growth in demand. There is a lot of gas out there, but pulling these projects together and getting them online, getting them online in time to meet that demand is a different matter.

I can tell you that it takes a large capital commitment and most companies in the world aren't going to make that commitment without having pricing that gives them a fair return. And that pricing is going to need to be something close to oil parity or the projects won't get built.

And so we will talk more about that. I know that there are different contract negotiations going on in the industry but -- and talk of S curves and things of that sort. But so far we have been able to keep our contracts on an oil-linked basis and have expectations that we will have strong pricing going forward or, frankly, these projects won't go. That is the best way I can answer that.

Jason Gammel - *Macquarie Research - Analyst*

Okay, I appreciate the comments and look forward to seeing you all in March.

John Watson - *Chevron Corporation - Chairman & CEO*

Thank you.

Operator

Doug Leggate, Bank of America Merrill Lynch.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thanks. Good morning, everybody. Morning, John. Got a couple of quick ones for you. First of all, a follow-up to Jason's question (technical difficulty).

Pat Yarrington - *Chevron Corporation - VP & CFO*

Doug, you are cutting out and we can't hear your question. Could you try again?

Doug Leggate - *BofA Merrill Lynch - Analyst*

Let me dial back in. Let me try one more time.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Okay, thank you. We will go to another question.

Operator

Faisel Khan, Citigroup.

Faisel Khan - *Citigroup - Analyst*

Good morning. On the Downstream side could you give us an update on the Richmond refinery and when it will return to full operation and what regulatory approvals and permits are required to bring all the units back up and running?

John Watson - *Chevron Corporation - Chairman & CEO*

Sure. We had a fire that was back in August. Since that time we have been going through the regulatory reviews, as you would expect, and going through the repairs that have been necessary.

We are nearing the end of that repair work and we really have a couple of steps that are left. One is an order prohibiting use, which has to be lifted by Cal/OSHA, and the second is our own sort of pre-start safety reviews that would be normal and customary to bring the crude unit back up. So we are really targeting first quarter and I have no reason to think it will be other than that at this time.

The repair work is going well. It has been arduous getting permits and going through the process here in Richmond, but we are working through that and expect that we will be ready to go here in the first quarter.

Faisel Khan - *Citigroup - Analyst*

Okay, great. Thanks. Just a quick question on the asset sale gain in Downstream. Could you just confirm that the $210 million change quarter over quarter is also pretty close to the absolute asset sale gain in the quarter?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Let me just look here for a moment here.

Faisel Khan - *Citigroup - Analyst*

Thank you.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Well, actually, no. We did have a third quarter -- there was the asset transaction, a negative impact associated with the Australia restructuring. So the variance is what we were talking about. It is a small, relatively small amount that you are talking about all together.

Faisel Khan - *Citigroup - Analyst*

Okay, fair enough.

Pat Yarrington - *Chevron Corporation - VP & CFO*

In terms of an absolute in the quarter.

Faisel Khan - *Citigroup - Analyst*

So the absolute number is fairly small or de minimus in the quarter?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Right, and the variance does take into account the Australia Kurnell refinery restructuring in third quarter.

Faisel Khan - *Citigroup - Analyst*

Okay, got you. Perfect, thank you.

Operator

Doug Leggate.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Can you hear me now? So the question was on the timing of Kitimat and the FEED work that Apache had already done. What do you expect happens now to the timeline of that project? And I do have a follow-up if you can hear me. Thanks.

John Watson - *Chevron Corporation - Chairman & CEO*

I better wait till we close the transaction before I comment. Apache has been doing -- Apache and partners have been doing the work thus far. We hope to close the transaction soon and will become the operator at the plant and pick up where they have left off. And they have done quite a bit of work.

But it is too early for me to talk about the specifics because, frankly, we are not yet in the project per se. So give us a pass for now. After we close the transaction and can follow up on the due diligence work that we have done and really look more closely, we will give you a better idea of both cost and schedule in due course here.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Great, thanks. So my follow-up is going back to our lunch in December you had mentioned some concern or maybe some issues around the tax regime in Nigeria. Could you give us an update as to where you see that currently and how it may or may not impact to the development?

John Watson - *Chevron Corporation - Chairman & CEO*

I wish I could give you an update, but there has been a petroleum bill in progress in Nigeria for several years now and, frankly, I don't have any particular update on it right now.

Pat Yarrington - *Chevron Corporation - VP & CFO*

I was just going to say the bill is currently in the national assembly and, as John says, it has been under review for a long period of time. And we really can't say much more about which way we think this will go. We have been on record as saying that as it is constructed it is not an incentive for further investment, particularly deepwater.

Doug Leggate - *BofA Merrill Lynch - Analyst*

So (technical difficulty) is pretty far along though, I would assume that wouldn't be affected?

John Watson - *Chevron Corporation - Chairman & CEO*

I'm not going to speculate on where it may wind up. We and others have expressed our view that the bill, the ultimate bill that is put into law needs to offer incentive or they will see reduced activity. Frankly, right now the uncertainty is resulting in reduced activity so they do need to come to resolution. But I am not going to predict how or when that is going to happen.

Doug Leggate - *BofA Merrill Lynch - Analyst*

All right, folks. Thanks for the answers, appreciate it.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays Capital - Analyst*

Thank you. John, maybe it's a little bit of an oddball question. Over the last 10 years I think a lot of people, both in the industry and the host government, believe the resources become more scarce. Easy oil has already been tapped and so they have been pushing tougher and tougher terms.

With the last several years of the new founded opportunity set in North America and, quite frankly, I think the budget course and the host government has continued to go up. So have you seen a bit of a change in your negotiation or in your dialogue with the host government that they become a bit more accommodating or that the balance of power start shifting more back into a neutral zone?

John Watson - *Chevron Corporation - Chairman & CEO*

Fair question, Paul. I can't say that I have seen a relaxation in terms. What I will say is that it is a competitive market out there and countries that put forward terms and conditions that don't allow us to make a fair return we look elsewhere.

The reality is we have a long queue of opportunities. It is as good as it has ever been since I have been in the Company. We have more opportunities coming at us every day at all phases of development, from exploration all of the way up through discovered resources and other opportunities. And so we can be a little bit choosy.

And capital does move across the globe and goes to where the returns are. I am not going to single out specific countries, but I think you know well that there are a number of countries where activity has ground to a halt. It has ground to a halt because investors do have choices. They are not going to go where they don't have the certainty of the returns, a fiscal environment and other conditions necessary to invest.

So it is a competitive world. I will say that some host governments are acutely aware of what is happening in the US and I know there is some nervousness in that regard, but I can't say that I have seen a wholesale change in (multiple speakers).

Paul Cheng - *Barclays Capital - Analyst*

Can I ask as a follow-up? In the last, say, 10 years in sometimes that we have seen some foolish behavior from some of your competitors in rushing in some project and accepting really bad terms. In your discussion and when you chat with your peer or what you can see in your partner have you seen the behavior change that the people now believe they have better opportunity set than, say, in the past so that they are not going to be as maybe that accepting those unreasonable terms as likely as in the past?

John Watson - *Chevron Corporation - Chairman & CEO*

If I understand your question you are asking me to comment on the foolishness of my competitors and I'm not going to.

Paul Cheng - *Barclays Capital - Analyst*

Have you see a change in, because in commodity business sometimes, unfortunately, that you're only as good as your next dumbest guy.

John Watson - *Chevron Corporation - Chairman & CEO*

I'm not going to comment on our competitors. What I will say is for us we have to see the right fiscal terms in order for us to invest.

One of the areas we have talked about before that was, frankly, disappointing to me in many ways because we worked very hard was in Iraq where, going back way back to 2003, we had been providing technical support and training. And we had hoped that there would be an opportunity to enter southern Iraq. When push came to shove in those bid rounds we just didn't see that the opportunity measured up.

We are always value focused in what we do. We are not barrel-focused, per se. Those are great resources but we didn't see an opportunity to make money, so we politely passed on bidding and moved on to other opportunities.

I can't speak for others, but that is the calculus we go through. We want to help nations grow and develop their resources but we have to get a fair return in doing so. I think host governments are getting better recognizing that. I assume our partners have similar criteria. They may come to different judgments on these things, but that is what we are all trying to do.

Paul Cheng - *Barclays Capital - Analyst*

Thank you.

Operator

Iain Reid, Jeffries.

Iain Reid - *Jefferies & Company - Analyst*

A couple of questions, please. Firstly, a little surprised you said that there's only going to be minimal production from Angola LNG this year. Is there still issues with that plant that are going to delay it into the second half of the year, or maybe you could just expand a little bit on what the situation is there?

John Watson - *Chevron Corporation - Chairman & CEO*

I hope I said that there would be minimal production from Frade this year. Frade we shut down on a precautionary basis early in 2012, and we are working closely with the regulatory authorities to restart production. But I won't give you an estimated date until we can complete the discussions to settle some of the litigation that is involved there. And the discussions have been good.

Angola LNG is different. We do expect Angola LNG to start up in the second quarter, so we do have a partial year of production. And, in fact, that is the single largest contributor. If you look at our major capital project wedge on production for 2013, Angola LNG is the largest single project. It will start up in the second quarter and ramp up over the course of the year. At full capacity after full ramp-up, Angola LNG contributes about 60,000 barrels a day, so it is significant. But there will be a ramp-up that will happen over time.

Iain Reid - *Jefferies & Company - Analyst*

Okay, my follow-up is on your 2017 production. You said that you had 90% of the volumes ongoing in order to meet that. What is the extra 10%? And I am just wondering, you've still got the fairly low price assumption on that. Do you want to give us any sort of sensitivity on what it would be at current prices?

John Watson - *Chevron Corporation - Chairman & CEO*

Sure. We categorize our projects into several different categories. We have producing assets today, so we have assets that are online today and there is a natural decline to those. But a significant number of those are producing today and will be online -- still be online in 2017.

We have projects that are under construction, projects like Jack/St. Malo in the Gulf of Mexico. That will be on production and ramped up and will contribute, but it is not contributing today. So that is a project that is under construction.

We also have projects that are in FEED, or front end engineering and design, and then we have -- that will come to a final investment decision. Investments will be made and they will start up. Then we have other smaller capital projects that have a shorter cycle time to them, so that remaining 10% are typically shorter cycle time projects that we know are coming or projects that have not yet -- are not yet under construction.

An example of some of the projects that will ramp up or some of the varying activity in the Permian and elsewhere in the United States, smaller projects in Thailand and Indonesia, places like that. So we have good knowledge of what is in there. What we are saying is the project itself may not be under construction right now on that remaining 10%.

We are going to give you a heck of a lot of detail on all of this information as we get up to the SAM meeting. I will just say that we have greater certainty and knowledge and confidence today than we did a year ago on that 2017 target. We have work to do but we know where the barrels are coming from.

Iain Reid - *Jefferies & Company - Analyst*

So you don't need Tengiz Future Growth?

John Watson - *Chevron Corporation - Chairman & CEO*

Actually not. When we first gave you our target for 2017 there was some contribution from the Future Growth Project. We have been working with the government and our partners on FGP. In fact, I was in Kazakhstan late last year and the president was very supportive of the project and wanted us to move it forward expeditiously.

It does have a long lead time to it. We have had to work through issues with our partners. We have done that and we expect that start-up will be in 2018. So we have been able to replace the barrels that we had previously earmarked for 2017 from Tengiz with other opportunities. Of course, that means that we will have growth beyond 2017 from that very significant project, which only adds to the profile we have talked about.

Iain Reid - *Jefferies & Company - Analyst*

Any chance you can give us the target at today's prices?

John Watson - *Chevron Corporation - Chairman & CEO*

The volume target?

Iain Reid - *Jefferies & Company - Analyst*

Yes.

Pat Yarrington - *Chevron Corporation - VP & CFO*

That is something we can do at the SAM. We don't have the number here right now with us. You understand why we keep it at the $79 rate, correct?

Iain Reid - *Jefferies & Company - Analyst*

Yes.

John Watson - *Chevron Corporation - Chairman & CEO*

The 3.3 million barrels a day target for 2017 hasn't changed and we will talk more about some of the projects that will contribute. I don't think we made a secret of the Tengiz -- the next project at Tengiz is a 250,000 to 300,000 barrel a day gross project and we have about half of that. So it is a significant contributor.

But there are other changes that have taken place in the portfolio that are other opportunities as well. But essentially as that project moved out just a little bit we have replaced it with unconventional and other opportunities.

Iain Reid - *Jefferies & Company - Analyst*

Okay, thanks very much, guys.

Operator

Ed Westlake, Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

Good morning. Thanks for the call so far. Just coming back to the Gulf of Mexico, obviously that is still an area with a lot of spend going on. Any updates on projects on time, on budget?

John Watson - *Chevron Corporation - Chairman & CEO*

Actually I just had a review recently and both Jack/St. Malo and Bigfoot are on schedule for start-up next year. They are both going well.

They are both over 50% complete. Bigfoot is some two-thirds of the way along; Jack/St. Malo is close to 60% along. We've got development drilling that is taking place, a couple rigs that are working Jack/St. Malo now.

So the progress is good. We will give you a little more color around that next month at the SAM meeting but the progress is good.

2014 will be a good year for us production wise. We will have -- in addition to those projects coming on during the year we will have a full year of activity from Angola LNG. We will have substantial contribution from Papa Terra, Escravos gas-to-liquid, and others.

So we expect 2014 will be a pretty good year. Pretty consistent with what we have talked to you about before where on this 2017 pathway the growth would be back-end loaded and 2014 is when you will start to see most of that come to pass.

Ed Westlake - *Credit Suisse - Analyst*

Then just switching to shale, you mentioned 175,000 barrels a day contribution to 2017. You may not have the numbers, but maybe just a rough sense of how much of that 175,000 comes from, say, the Permian, the Duvernay, and the liquid-rich Utica?

John Watson - *Chevron Corporation - Chairman & CEO*

We will leave that one for George to talk to you about. I will tell you the number will be bigger than 175,000 barrels a day and we will try to give you a little bit of color on that next month. How about that?

Ed Westlake - *Credit Suisse - Analyst*

I could have asked the question more simply. Thanks very much.

Operator

Allen Good, Morningstar.

Allen Good - *Morningstar - Analyst*

Good morning. John, previously you mentioned the value of integration given that you never really know where the rents are going to be in the oil and gas business.

Given the growing US volumes, your participation in the unconventional and Gulf of Mexico, some of these volumes that may trade at a discount to global world prices, does it make sense at this point to maybe reevaluate your US refining position? Particularly getting involved in maybe some of these areas in the US, whether it be the Mid-Con or the Gulf Coast that may see long-term benefits from this. Or is the focus still more just on the chemical side for your Downstream?

John Watson - *Chevron Corporation - Chairman & CEO*

If you are saying are we thinking about buying a refinery, I would tell you that is not something that we are looking to do. Our involvement really is along the lines you describe where we do have low-cost liquids and our terrific position with Chevron Phillips chemical company allows us to take advantage of that, both for existing assets and this expansion project that the chemical company has discussed. So that is the primary way that we will take advantage of it.

Now I will say that we have got two refineries that do take advantage of low-cost feedstock. We have a refinery at Salt Lake, we have a refinery at Burnaby in British Columbia, and those two refineries take advantage of low-cost feedstocks. We are always looking for ways to try to get lower cost feedstocks into our West Coast and Pascagoula refineries.

That is a little tougher. We have moved a little bit there, but it is a longer haul so it is not clear that we will be able to take advantage of it in that way. But we have got quite a bit of effort; we are pretty full up on what we think are some good investments in the Upstream end of the business.

Over time I think these markets will equalize and so making investments that aren't quite compatible with the strategy in the Downstream to take advantage of what we think will be a short-term phenomenon really isn't something we are looking to do.

Allen Good - *Morningstar - Analyst*

Okay, thanks. Then you mentioned sort of the premium that was on unconventional opportunities here in the US, particularly in the Bakken. Do you see more value maybe internationally where the market is a little bit less developed and maybe where you can apply a bit more expertise and have a bit more value-add on the unconventional side?

If you look internationally as well, do you see a bit more opportunity maybe areas you are not currently involved where you may be able to leverage your deepwater expertise, like in the Arctic or an East Africa or maybe even a Russia?

John Watson - *Chevron Corporation - Chairman & CEO*

Our commercial philosophy is to go in where we can bring technology or something unique. We favor early, low-cost entries where we can add value over time through the application of our technology or know-how. When it gets down to a pure bidding war with a lot of different players, in the US there is a lot of money that is looking for opportunities. If it is not a particularly difficult entry for a party, it means there will be a lot of bidders and prices get bid up.

So while the resources are very good and well understood in the US, and in many cases are quite prolific, we are focused on the kind of returns that we can get. And so we have made selective entries in the US. We feel good about those entries. Done well in Canada.

And we have picked up some acreage overseas, notably in half a dozen countries in Central Europe. We have a preliminary agreement in South Africa, Argentina, China, etc. Those are more exploration plays and are early-stage entries. They don't represent a significant capital commitment, but on the upside, if they are successful will be significant. We think we will be able to add value.

Similarly, in more conventional exploration there are parties that come to us because of our knowledge and expertise in deepwater that want an experienced partner. We are able to typically negotiate arrangements that are better than just an open bidding. In some cases we work directly with the government on awards and in other cases will work with smaller companies that may have accumulated acreage over time. That is why you have seen we have added acreage in Sierra Leone, Suriname, and other locations.

Allen Good - *Morningstar - Analyst*

Okay, great. Thanks.

Operator

John Herrlin, Societe Generale.

John Herrlin - *Societe Generale - Analyst*

Just two quick ones for you, John. You mentioned at the beginning that you had signed new LNG contracts in Australia. Are those incremental to what was discussed last September on the tour?

John Watson - *Chevron Corporation - Chairman & CEO*

No, I don't think we have anything new to talk about on the contracts. We are over 80% placed on Wheatstone and in the mid-60%s on Gorgon.

John Herrlin - *Societe Generale - Analyst*

Okay, I just wanted to make sure I didn't miss something. That is fine.

Pat Yarrington - *Chevron Corporation - VP & CFO*

John, we were just commenting that that was an accomplishment for the year, for 2012.

John Herrlin - *Societe Generale - Analyst*

Okay. I just wanted to make sure I didn't misunderstand. Obviously, I did.

Next one, on the Gulf of Mexico you have to do more BOP testing today. How has that kind of changed your development costs given the new regulations in the Gulf? And that is it.

John Watson - *Chevron Corporation - Chairman & CEO*

Well, several things have changed in the Gulf of Mexico for us if you really look at what has happened. The regulatory environment, of course, is -- obviously there is a great deal of attention to the regulatory environment, so the permitting process itself takes time.

The number of inspections that takes place is significant. There are extra casing strings that can be required at times, added BOP inspections, added costs being a part of the Marine Well Containment Company, etc. Plus other cost pressures that you are seeing in the business.

So we have seen some cost increases in addition to that rig rate. So over the past several years it is not unusual to say a 20% to 25% increase in costs have been seen by the industry, and that is just the reality of doing business today. Of course, we have got over $100 oil, too.

John Herrlin - *Societe Generale - Analyst*

Great, thanks you.

Operator

Pavel Molchanov, Raymond James.

Pavel Molchanov - *Raymond James - Analyst*

Thanks for taking my question. On the Kitimat project, just taking a step back, as one of the top LNG producers, particularly when Gorgon and Wheatstone start up, are you worried that with 30 US and Canadian LNG export plants in some stage of development there could be kind of a delinking of LNG and crude in Asia-Pacific?

John Watson - *Chevron Corporation - Chairman & CEO*

I think that has been speculated about. Our view is that there are always a queue of projects that are discussed and if you look closely at what is discussed versus what actually get built there is a difference between the two. I said earlier on the call that I don't think that you will see what I would call speculative development of LNG sites without some certainty around contracts and sales prices.

My view is it's going to take substantial prices to underpin developments of these tens of billions of dollars in spending that is going to be required and, therefore, some projects will go and some will not. We think that we have a leg up - in terms of the relationships we have, the credibility we have, our ability to construct facilities - in our discussions with the buyers.

Next month at the SAM meeting I will show you a little bit of information about our view of both supply and demand for worldwide LNG. What we see is continued growth in demand and supply that tends to continually get pushed out, because the lead time on these projects is long. It is now at the point that it is pretty close to six years.

And so you can see these projects coming. There may be announcements made, but until you see FID, until you see construction happen you have to be somewhat circumspect about which projects will actually contribute to supply.

I think that is it. Appreciate the good question; that concludes our remarks. Let me just say I just appreciate everyone's participation in today's call. I have given several plugs for our full Security Analyst Meeting that we are going to have in March. We will look forward to seeing you there.

Thank you all very much. Sean?

Operator

Thank you. Ladies and gentlemen, this concludes Chevron's fourth-quarter 2012 earnings conference call. You may now disconnect.
