FINAL TRANSCRIPT

Thomson StreetEvents℠

CVX - Chevron Corporation's 2011 Security Analyst Meeting

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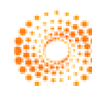

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PRESENTATION

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

Good morning, and welcome to Chevron's 2011 Security Analyst Meeting. I'm Jeanette Ourada, General Manager of Investor Relations. We're very pleased to be here with you today. And I'd also like to welcome those of you joining us via webcast.

Before we begin today's program I have a few important reminders. First, we ask that you take a moment to locate the nearest exit. In the event of an emergency, the St. Regis staff will provide further instructions. Second, we ask that you silence all cell phones and Blackberries. Finally, remember to take your name badge with you if you leave the room. You will need it to reenter.

Our program today includes a comprehensive update on Chevron. We'll begin with a corporate overview, followed by more extensive discussions about our major business segments. Our agenda features presentations by our Chairman and Chief Executive Officer, John Watson; our Vice President and Chief Financial Officer, Pat Yarrington; Executive Vice President of Downstream and Chemicals, Mike Wirth; the Vice Chairman and Executive Vice President of Upstream and Gas, George Kirkland; and Jim Blackwell, Executive Vice President of Technology and Services.

Jim was most recently President of our Asia-Pacific upstream company. This year we've invited Jim to join George in discussing our upstream business. Jim will focus on the Asia-Pacific region, given its importance to the future of Chevron. We'll take a few questions at the conclusion of Mike's segment, and a brief break will follow. We set aside more time for questions later in the program.

Also here with us today are Rhonda Zygocki, executive vice president of policy and planning, and Steve Green, our vice president of policy, government and public affairs. Steve has also just recently assumed his position. He was most recently managing director of our upstream Indonesia and Philippine companies.

For those of you joining us via webcast, I'd like to invite you to participate in the Q&A segment. Please submit your questions to us by 11 a.m. Eastern Time through the investor section of the Company's website at www.chevron.com.

Today's presentation contains estimates, projections and other forward-looking statements. I encourage you to take a few moments to review the safe harbor statement, which is available in the appendix of your booklet and also on our website. Thanks for your attention. It's now my pleasure to introduce our Chairman and Chief Executive Officer, John Watson.

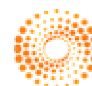
John Watson - *Chevron Corporation. - Chairman, CEO*

Good morning. Thanks, Jeanette, and welcome to our audience here in the room and those that are listening to the webcast. I'm very much looking forward to discussing Chevron's strategies and performance with you this morning.

Last year at this event we discussed Chevron's recent history, strategies and future plans. I told you our four key priorities would be maintaining our execution momentum and running our business safely and reliably, advancing our long-term growth opportunities, improving the profitability of our downstream operations, and continuing to create value for our shareholders. I'd like to spend some time looking at our recent performance and show you how we're delivering on our priorities.

I want to start with safety. Events of the past year have made safety an important topic with investors. Safety has been a focus at Chevron for a long, long time. Our first safety committees and our initial focus on using proper safety equipment started 100 years ago, and we've been improving ever since.

On any given day we have over 200,000 people working on our projects and in our operations. We need to have systems and processes in place to keep each and every one of them safe every day. Over time we've developed and implemented ISO compliant systems and processes. Now, you may find references to similar processes at other companies, but there's a difference. And that difference, I believe, is culture.



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Safety is a part of the value system and culture at Chevron. We've turned words on a page into the daily actions of our workforce. Our workforce believes that incidents are preventable and they behave accordingly. This isn't something that happened overnight. It's taken time to build the process and obtain commitment from our employees and contractors.

I believe we've accomplished this through leadership, setting high expectations, giving people the tools and processes to manage operational risks, auditing for compliance, and then holding people accountable for their actions and results. This leadership, of course, starts with me and with every member of my senior management team.

Whenever we visit a facility, our first question is not about production or earnings. Our first question is about safety performance and the specific actions we're taking to improve both personal and process safety. You may recall in previous meetings we've always started with our safety stats. I hope it's now clear why that has been our practice.

We have two key principles that Chevron management consistently emphasizes with our workforce, to both employees and contractors - do it safely or not at all, and there's always time to do it right. Our days away from work rate has shown consistent and steady improvement and now stands at a world-class level. In 2010 both our upstream and downstream organizations experienced their safest year ever. We're extremely proud of that record and our leadership in this area.

Now, we don't take our performance for granted. We're not perfect. And we work to improve every day. We strive to learn from incident investigations and share best practices all across the Company. Mike and George will give you some examples of this a little later today.

Let's now move on to our financial results. This is a quick snapshot of our 2010 financial performance. We had a tremendous year. We earned $19 billion, a 17% return on capital employed, and had record cash generation of some $31 billion. We increased the dividend again by almost 6%. We maintained our investment program while keeping our balance sheet sound and flexible with low levels of debt.

Last year Mike talked you through a number of changes we're making in the downstream. This restructuring is on track. Mike and his organization made good progress in 2010 and we will see more of the benefits in 2011 and 2012. We're confident these changes will deliver improvements and competitive performance. Mike will share more specifics with you later.

Now let's look at upstream's production performance. In 2006, shortly after we closed the Unocal acquisition, we highlighted our plans for growing our upstream operations. We committed to grow production 3% per year from the base year of 2005 through 2010. As we've just closed 2010, I'd like to show you the growth we generated.

From a base of about 2.5 million barrels per day, we grew production over 400,000 barrels per day, or 3.1% annually. In the red bar, we include production impact from higher prices and acceleration of PSC triggers. Remember, both of these are good for shareholders, as they increase margins and accelerate cash generation. We also included fiscal changes that reduced productions, but maintained economic value. We delivered on our commitment.

Let's look at how the production growth translated to the bottom line over that same five-year period. On this chart we show indexed adjusted earnings per share. Over the entire time period, Chevron is either at the top or very near the top of the band. In 2010 we pulled away from the competition. So we've created value for our shareholders and done so through organic growth.

Of course, to have a strategy of growing organically, you have to have a broad set of opportunities. And we do. George will walk you through our queue of projects and the substantial acreage positions we've recently added to our portfolio.

Speaking more broadly over a longer sweep of time, Chevron has performed exceptionally well. Over the last 15 plus years, energy beat all other S&P 500 sectors in average earnings growth per share and Chevron's performance paralleled that of the energy sector. Pat will say more on our financial performance in a few minutes.

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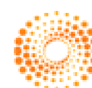

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Now looking at the ultimate measure, total stockholder return, Chevron led our peer group during this time period, and by a wide margin. We also outpaced the S&P 500 return by over 10%. We have grown the business in a disciplined way and have delivered superior results for our shareholders. And I'm very proud of our employees and their many accomplishments. I would like to share a short video with you that takes a look at the business, people and our culture at Chevron.

(VIDEO PLAYING)

John Watson - *Chevron Corporation. - Chairman, CEO*

I know a lot of you don't get the chance to see our operations. I hope those pictures helped bring our business to life for you.

Turning to strategies, we've had the same core strategies for years, and executed consistently against them. Our strategies remain sound, even in challenging and very dynamic business environments. We'll grow upstream profitably and build new legacy positions. We'll commercialize our substantial gas resource base while growing a high impact business. We'll improve downstream returns. We'll apply technology to differentiate performance. And we'll invest in profitable renewable energy and energy efficiency solutions. Later you'll hear George and Mike go a little deeper into our strategies.

I'd like to spend a few minutes talking about the macro environment going forward. our core business strategies are designed to deliver value to Chevron shareholders throughout the commodity price cycle. They're aligned with the view that over the long term, global energy demand will rise with economic growth.

According to most estimates, the world's demand for energy will increase almost 40% by the year 2030. As shown on the chart, that demand growth is concentrated in non-OECD countries, with an expected increase of some 57%. Under any scenario, oil and natural gas will be the largest part of the energy portfolio for decades to come.

In dark blue on the chart, liquids demand is expected to grow about 1% per year. Our long-term view of liquids demand growth coupled with the natural decline curve and the pace of industry investment creates strong fundamentals for our business going forward.

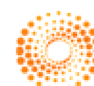
Natural gas demand, in light blue on the chart, is projected to grow about 1.5% annually, with that growth concentrated in non-OECD countries. This market fundamental supports our strategy to commercialize our large natural gas resource base. Let me talk to this a bit more.

The chart on the left shows the projected demand for natural gas. Growth in Asia is expected to be three times the global growth rate. Chevron's natural gas resource base is over 150 trillion cubic feet, with over half in Asia-Pacific. We're well-positioned to supply the growing Asian market through both LNG and pipeline natural gas.

Our Asian LNG sales contracts are linked to oil prices, and provide us with realizations that are near oil parity. This pricing makes the economics of those legacy projects very attractive and competitive within our queue. An added benefit from LNG projects is their plateau production profile. Once on-line, these projects will generate significant cash flow and soften our decline rate for decades. You'll hear more about this from Jim later.

I'd like to emphasize four key thoughts that we'll be covering throughout the day. First, we will do it safely. You can be assured that we'll continue to build on our reputation of being a safe and reliable operator. Second, we have developed a strong track record of delivering on our commitments, and you can expect more of the same.

Third, we have an outstanding growth profile for this decade. But we're also looking to the next decade, adding opportunities to our portfolio that will drive yet another generation of profitable growth. And finally, we have the people, portfolio and



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financial strength to continue delivering superior shareholder value. With that, I'll turn it over to Pat to cover our financial performance and priorities. Pat?

Pat Yarrington - *Chevron Corporation. - VP, CFO*

Thank you, John. Good morning, everyone. I'll start by reviewing our 2010 financial performance. I'll also cover our financial priorities, our future investment plans and our strong financial position.

2010 was an outstanding year for Chevron. We were $19 billion, up over 80% from 2009. Upstream accounted for the majority of our net income. Last year we saw relatively stable crude prices, with a notable up-tick in the fourth quarter. We also grew production over the course of the year. And I, for one, particularly like it when production and prices are concurrently strong.

The global downstream sector continues to be challenged by weak market fundamentals. However, our downstream results increased substantially from 2009 on margin recovery and our self-directed improvement and restructuring efforts. For the year, we earned a competitive return on capital employed of 17%. Over five years, our ROCE has averaged 20%.

Average capital employed was $110 billion, with upstream accounting for about 70%. Our capital employed profile stems from our belief, voiced a decade ago, that upstream would generate higher returns over the long run. We invested pursuant to that belief.

And I'd like to now turn to talk about returns. The chart on the left shows our capital employed over time, which is up by two-thirds over the last five years. This increase supported the production growth that John mentioned. On the right we show that even with this meaningful increase in capital employed, we have maintained top-tier ROCE.

This demonstrates that we've been disciplined, that we've made quality investment decisions, and appropriately paced our growth. You can also see over time that we have substantially narrowed the ROCE gap with the top of the competitive band. We're pleased with this trend.

So let's talk about cash flow. This chart shows cash flow per share indexed to 2005. Chevron has performed near the top of the band during this period, and in 2010 established a wide gap relative to our nearest competitor. This is the result of investing in the right projects, projects that are now generating substantial cash flow and fueling our future growth.

Let's now take a look at how we've managed cost. Clearly and importantly, we've maintained a keen focus on costs. We've retained a competitive cost structure while growing production. You can count on our continuing drive to be efficient and effective while also being a responsible operator.

Now let me turn to our financial priorities. These remain unchanged. Our first priority is to sustain and grow our dividend. We have a very good track record of doing this. Our second priority is funding our capital program. We have an impressive lineup of attractive capital projects that earn good returns and that will drive our future growth. Our third priority is to maintain our financial strength and flexibility. Our balance sheet is a clear advantage. We intend to keep a solid AA rating. And finally, we're committed to returning surplus cash to our shareholders.

As I mentioned, our first financial priority is to sustain and grow our dividend. A secure, predictable dividend is important. It represents a consistent return of value to our shareholders. Our dividend growth pattern is superior. We've had 23 consecutive annual increases with our dividends growing at an average rate of 7% over that time period. We also have a competitive yield, about 3% at the end of February. And while not indicated on the slide, since 2004 we have had $26 billion of share buybacks.

Our second financial objective is to fund attractive capital projects consistent with our long-term growth strategies. Our announced capital program in 2011 is $26 billion. And here you see additional insight into our investment priorities. On the left

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is spending by category. You see a strong emphasis on oil and gas development, accounting for 78% of the total program. Additionally, we plan to spend another 9% for exploration.

I'd like to draw your attention to natural gas. About 40% of the 2011 capital program will go to natural gas projects, and almost half of that 40% is for LNG projects where realizations approach oil parity. Downstream investment is 11% of the total program. This spending includes several refinery and chemical projects that Mike will discuss shortly.

I've often heard comments about our capital intensity, and I'd like to address those now. We have had a strong capital program in recent years because we've had excellent projects to invest in. We have spent more than $90 billion in upstream over the last six years. While that sounds like and is a lot, our relative reinvestment rate may surprise you. We are not as capital intensive as many of our peers.

This graph shows reinvestment ratios, how much of a firm's cash from operations has been reinvested. In this metric we include both cash investments and the equity portion of major M&A transactions. For most of the five years shown, we've been in the middle or towards the bottom of the peer group on reinvestment rates. And yet, as you've seen earlier, we've outperformed our peers in growing both earnings and cash flow per share.

So, what we have is a peer average reinvestment rate generating superior financial results. This is solid proof that we're expanding the right parts of our portfolio, and that we're choosing wisely on individual projects. Looking forward, we're heading into another period of strong investments preceding strong growth. So we're confident that we're positioned for a repeat performance in delivering superior shareholder value.

Moving to our balance sheet, we've clearly been prudent with our capital structure. At year end, our debt ratio was just under 10%. This is an ultralow and obviously very manageable level. At year end we were in a $5.6 billion net cash position and had the strongest balance sheet in the peer group.

We've deliberately kept some flexibility in our financial structure, allowing us to weather volatile commodity prices and margins while consistently funding our long lead time projects. Our financial strength and flexibility continue to be clear advantages as we enter another multi-year phase of strong capital investments.

I'd like to now comment on the relationship between earnings per share growth and PE ratios. The top chart shows historical EPS growth rates. The bottom chart shows historical PE ratios. You see multiple industry sectors, but I want to call your attention to only the highlighted bars, the entire energy sector, Chevron and the S&P 500.

Over the last 15 plus years, energy, in orange, beat all other S&P sectors in average earnings per share growth. Chevron's performance has paralleled the energy sector average, and has been more than two times the S&P 500 average.

What's interesting is that this excellent performance in EPS growth for energy stocks in general, as well as for Chevron specifically, has not translated into leading PEs. One explanation may be that the market has not valued commodity price appreciation, yet price appreciation in a resource business where demand is growing and where supplies are challenging to develop represents real value for shareholders. Looking back, our track record speaks for itself. Looking forward, we're well-positioned to continue delivering superior performance.

So let me sum up. We really are doing it all. We have an unparalleled project queue, both in terms of quantity and quality. We've been disciplined in our investments. With so many choices, only the very best projects get funded. We generated top earnings in cash flow per barrel results, which have built the strongest balance sheet amongst our peers. And we've shared our success with our shareholders through a growing dividend and share buyback. Now we continue the cycle, funding our legacy projects while at the same time rewarding our shareholders. With that, I'd like to turn it over to Mike to discuss our downstream business. Mike?

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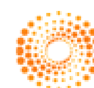

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Mike Wirth - *Chevron Corporation. - EVP - Downstream and Chemicals*

Thank you, Pat, and good morning. It's a pleasure to see everyone again and discuss Chevron's downstream business with you. I'd like to start with safety, and build on John's comments. 2010 was our safest year ever on all measures. We're committed to excellence in both personal safety and process safety. The words on this slide are important, but what really matters are the people. With that in mind, I want to start with the picture on the right and share a recent example that demonstrates what our safety culture is all about.

Last month one of our equipment inspectors identified a heat exchanger that was susceptible to something called high temperature hydrogen attack, which could lead to failure of the outer shell of the exchanger. This was the root cause of a serious incident at a refinery elsewhere in the industry. The inspector used her stop work authority to ensure the process unit was shut down and the equipment safely and proactively inspected. Although no signs of distress were found, it was the right thing to do, to proactively assess the risk and take whatever action is needed. This is an example of process safety management at work.

No loss of containment is the goal at our operations. We begin with the belief that this takes more than just world-class processes. We also need leadership and a culture of accountability to ensure operational discipline. We continuously look to reduce risk by rigorously following our safety processes and applying the lessons learned from the industry and within Chevron. Every employee and every contractor working at a Chevron facility has stop work authority. It's through these types of actions and a culture that puts both personal and process safety first that we'll ensure everyone goes home safely each and every day.

I'll break the remainder of my comments into three sections. First, I'll review the business environment and our strategy. Then I'll cover our performance in 2010. And I'll close with what we're doing to continue to improve our competitiveness.

Although we saw some recovery in margins in 2010, the outlook remains challenging. The combination of new capacity additions, a sag in global demand, and slow refining rationalization has led to an overhang of surplus capacity. Weak margins are likely to persist, with the impact most acute in OECD markets. As I've said before, in this environment we have to improve performance through the things we control. That means a relentless focus on safety, reliability, costs and controllable margin improvement.

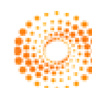
However, there is a growing demand for fuels globally. You are well aware that Asia, and to a lesser extent emerging markets in other regions, are the primary growth drivers. We expect this growth will be led by distillate products. And not shown on this fuels chart, but something I'll touch on later, is continuing strong demand growth for lubricants. All of these trends play into Chevron's strengths.

The majority of our refining assets are in North America and Asia, predominantly in the growth markets of the Pacific Basin. We have technology strength aligned with distillate demand growth.

Chevron invented modern hydrocracking and was the first to commercialize it. This is a key to both distillates and advanced lubricant manufacturing. In North America and Asia, our hydrocracking capacity relative to fluid cracking capacity is the highest in the industry. This allows us to better optimize production to meet future market demand. So both our geographic footprint and our technology are competitive advantages in profitably capturing future growth.

Our strategy remains pragmatic and sound. We continue to focus on improving returns and growing earnings. We'll do this through a relentless commitment to operational excellence, driving improvements in the base business and managing our portfolio for highest returns and performance.

Last year I outlined how we'd improve returns over the next three years. Not through any silver bullets, but through steady progress in refining, marketing, portfolio and costs. we made major strides on all these dimensions last year, and have laid a strong foundation to deliver on our commitments. All improvements are on or ahead of schedule, and we've begun to realize the benefits. You see it in our 2010 results, and I'll talk about how we'll continue to improve this year and beyond.



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So let's move to a review of performance. 2010 was a very good year, both operationally and financially. For the last several years I've talked about reliable operations as a top priority. This chart shows Solomon utilization for the last decade, where we've been leading the pack during the last two survey periods. We had another strong year in 2010. We'll see competitive data in a few months to see how we stack up in this most recent reporting period. Top-tier reliability remains the bedrock of our operations. I'm committed to continual improvement and sustaining our performance.

I've also discussed with you for several years the ongoing commitment to focus our portfolio. Since our last meeting, we exited seven countries in 2010 and another two already this year. In the U.S. we withdrew from 13 states in the East and sold six product terminals, as well as our interest in the Colonial Pipeline. Since 2005 we've generated some $6 billion as a result of these actions.

To put that into context, I'll remind you that in 2006 we operated in more than 140 countries. We've now cut that number by more than 40% and we'll reduce it further by the end of 2012. Volumes will decrease by a smaller amount. And equity refinery production will be much better balanced with total sales. This simplifies our business and puts greater focus on core markets. Retaining scale where we have competitive positions to deliver strong performance across the cycle.

Last year I also told you we'd create a simpler organization and a lower cost structure without sacrificing our commitment to safety and reliability. In 2010 we set a target to reduce our workforce by 2,000 employees. We exceeded that target and delivered a reduction of nearly 2,700. The operating expense benefits of these moves didn't make an appreciable contribution in 2010, as the departures were back-end loaded and we took a charge for severance. We'll see the full benefit this year. Combined with 2009, this represents a workforce reduction of more than 20%.

We continue to strengthen our core assets with investments to improve refining reliability, flexibility and yield, and to meet growing demand for petrochemicals. Last year we had three key project startups. At Yeosu, South Korea a new vacuum resid hydrocracker utilizing proprietary Chevron technology started up and is running at full capacity. This increases heavy crude flexibility and improves the yield of high quality products.

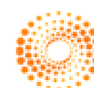
At Pascagoula we started up a new continuous reformer, which enhances reliability and increases product yield and hydrogen production. And in Qatar, Chevron Phillips Chemical successfully started up a greenfield ethylene cracker and derivative plants. Each of these is a highly competitive world scale facility.

Now I'll turn to our plans to continue to improve competitiveness. Last year I shared our plan to reduce costs in our refineries by $400 million by 2012 while maintaining our focus on safe and reliable operations. This is represented by the blue bar, on the right. As represented in green, we've also identified $300 million in energy efficiency as well as controllable margin and yield improvements. So we now expect to capture a total improvement of $700 million before-tax versus a 2008 baseline.

I'm pleased to report 2010 results were right on track. We've captured more than half our operating expense target through lower contractor spend, better maintenance efficiency and reduced catalyst costs. We've improved margins through moves such as modifying coke drum velocities to increase Pascagoula coker yield, and improved energy efficiency through changes such as adding heat shields to inlet filters for older cogen units at El Segundo to raise power output and lower energy costs.

In Marketing and Supply we continue to optimize sales channels, drive down costs and improve returns. We've reduced terminal count and service station ownership by about a third and plan to reduce further by the end of 2012. We remain committed to our strong brands, unsurpassed gasoline quality and other top quality products to underpin a strong and profitable marketing business.

As I said earlier, our portfolio work continues. We now have signed deals to sell our businesses in the UK, Ireland, Spain and 17 countries in Africa, Central America and the Caribbean. I'm pleased with the progress we've made over the past 12 months in securing good buyers and good value. I expect that most of these transactions will close this year. We continue to solicit bids for other businesses in Central America and the Caribbean, including sizeable markets in Puerto Rico and the Dominican Republic.



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Finally, last year I mentioned a review of Hawaii, which is now complete. We've identified profitability improvements and will continue to operate the refinery, subject, as with all assets, to normal ongoing reviews.

On the investment side of the portfolio, capital discipline is an essential part of improving returns. Our 2011 capital plan sustains a sizeable reduction versus 2009. The top priority remains the safety and reliability of our facilities, representing the largest part of our base business spending. You can see the impact of completing the major capital projects I mentioned earlier in reduced MCP spend in 2010 and 2011. Going forward, we'll invest in carefully selected projects to improve energy efficiency, feedstock and product flexibility and to leverage proprietary technology.

I'd like to highlight a few of these key projects. At El Segundo we're adding a fourth cogen unit to improve energy efficiency and lower operating costs. At Pascagoula we're adding a world scale premium base oil plant. In Saudi Arabia, Chevron Phillips Chemical is completing a world scale ethylene cracker and associated derivative units, which is scheduled to be commissioned later this year. In South Korea we'll invest in further heavy oil upgrading. And finally, we've begun a multi-year expansion of our Singapore additives plant to feed into the growing Asia market demand for high quality additives.

I'd like to say a little more about our growing Base Oil business. The Pascagoula project leverages a strong refinery and proprietary Chevron technology to meet growing demand for higher margin premium lubricants. These products are increasingly required for the world's vehicle fleet. Earlier I mentioned our industry leadership in hydrocracking.

We also invented ISODEWAXING technology to create the premium base oils market with the world's first all-hydroprocessing base oil plant at Richmond. Two years ago we started up a similar plant in South Korea. And now we've begun construction of a 25,000 barrel per day plant at Pascagoula, which, when complete in 2013, will make us the world's leading supplier of premium base oil.

I've talked about optimizing our portfolio from a geographic perspective. Let me describe what it looks like from a business segment point of view. These two bars show the percentage contribution to earnings from our business segments in the recent past, and what we expect a few years out. You can see the shift to a more balanced portfolio, with a larger relative contribution from outside refining and marketing. This is a deliberate shift and is backed by the capital allocation I just described.

Through our portfolio activities, both divestments and investments, we're building a more geographically focused and more segment balanced earnings portfolio. All that work has translated to the bottom line. In 2010 our adjusted earnings per barrel were $1.53, the best among our peers. And we delivered a 10% adjusted ROCE, which we expect to rank number two among our peers when final 2010 capital employed data is available. I'm proud of the strong improvement in our competitive performance.

So, to close, I'd like to summarize my key messages today. First, our strategy remains sound. It's grounded in a sober view of the business environment. We're focused on improving returns through hard work in executing the fundamentals and building a smart and more balanced portfolio.

Second, our performance is strong. Safety and reliability are at industry leading levels. Earnings and returns are competitive and we've met restructuring and portfolio commitments. We're investing in carefully targeted growth projects that will strengthen and diversify our earnings.

And finally, we're committed to delivering and sustaining top-tier competitive results in the critical areas of safety, reliability and profitability. We've demonstrated we can improve our operating and financial performance, and I'm confident we'll deliver and sustain further improvements again this year. Thank you. I'd now like John and Pat to join me.

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QUESTIONS AND ANSWERS

John Watson - *Chevron Corporation. - Chairman, CEO*

Thanks, Mike. We will welcome your questions now. First, just a couple of minutes, just one second. First, let me have a couple of rules. Please hold your upstream questions until later in the program. Of course, George and Jim are going to talk more, so we'll cover the upstream a little later. If you have a question, raise your hand, I'll call on you.

Please wait till you get the microphone before you ask your question so that everybody, including those online, can hear. We ask that you state your name and your company affiliation. And out of respect for your colleagues, please limit yourself to one question and a quick follow-up if necessary. Okay, so let's start with the questions. We'll start right here in front. Go ahead. Is that Doug?

Doug Terreson - *ISI Group - Analyst*

Doug Terreson, ISI. You guys, John, have significantly improved your returns in restructuring and refining and marketing during the past decade or so. And while I think Mike highlighted some of the progress you guys have made on the cost side, my question was how much of the 7 percentage point rise in returns on capital that you talked about, I think on page eight, and just in the controllable areas, had you captured and where have you outperformed or underperformed, et cetera?

John Watson - *Chevron Corporation. - Chairman, CEO*

I'll let Mike comment in a minute, but a lot of what we got this year was from the marketplace and maybe a quarter of it was from the self-help. But maybe Mike can give you a little bit of -- little bit of color on that.

Mike Wirth - *Chevron Corporation. - EVP - Downstream and Chemicals*

On an apples-to-apples basis, because we've got the chemicals segment in downstream now, so if you adjust for that, year-on-year was about an 8% improvement in return on capital employed. About three-quarters of that, call it 6%, came from margin improvement, '09 to '10. And about a quarter of it, call it 2% of the improvement, came from the other self-help initiatives that we have underway. That's right on track with our plans.

We knew this was a multi-year effort that we've embarked upon, as I mentioned. A number of the cost initiatives, you've got some cost to access up front, you've got some early ramp-up, and we didn't see full year capture on a number of these things in 2010. We'll see the full benefits flow through in '11. And then as we continue to have some efforts underway in some more of the portfolio restructuring, some of the things we're executing in '11 will actually materialize on a full-year basis in '12.

So, we're very pleased with where we are. We feel like we are delivering on the controllables. But the largest part of the improvement year-on-year from '09 to '10 certainly was the market. So we've got more work to do, efforts underway, and strong commitments built into our business plan to achieve those.

John Watson - *Chevron Corporation. - Chairman, CEO*

Right here.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thanks, John. Doug Leggate from Merrill Lynch. This is going to sound like an upstream question but it's really not. Over the next several years you've said that your growth is going to be fairly modest, around 1%. So given your focus, I guess this is really

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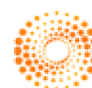

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for Pat, on growth per share that you mentioned, why not a little more attention to share buybacks versus what you've been doing? And if you could talk a little bit about how in this somewhat elevated commodity environment, how do you see using that surplus cash balancing between dividends and share buybacks.

John Watson - *Chevron Corporation. - Chairman, CEO*

Sure, well, let me -- Pat made some comments on that subject. Let me follow up with that. We like share repurchases. If you look at the priorities that we laid out, we said that our first priority was around increasing the dividend as the pattern of earnings and cash flow permit. And we've had a great track record in doing that and that's been our priority.

In order to pay those dividends and increase the dividends, you have to increase earnings per share and increase cash flow per share. And we've done that. And we have to continue to invest to do that, and so that's our second priority. And then we want to make those investments, keeping in mind that we need a strong balance sheet. And there's a lot of volatility in the commodity markets. So we've laid out the priorities in that order, and share repurchases comes last in that priority queue.

Now, having said that, we reinstated our share repurchase program late last year, before the recent run-up in prices, and we laid out boundaries around that repurchase program, which would be $500 million to $1 billion a quarter. And the first two quarters of that program we set at $750 million. Going forward, we certainly have the wherewithal to use the full range that we laid out before. And, as appropriate, increase that range.

We're not going to pile up cash on the balance sheet unnecessarily. So, repurchased $26 billion in shares in recent years and we're generating a lot of cash. And as appropriate, we'll continue to repurchase shares. Our point has been to not stop and start share repurchase programs. We think that our shareholders value consistent share repurchase programs. And that's why we've made the recent program, an open-ended one and one with a range that we felt we could sustain for a period of time. Now, commodity prices are higher than that. We have the wherewithal to use the full range or increase it as necessary. Yes, Paul?

Paul Sankey - *Deutsche Bank - Analyst*

Thank you. Paul Sankey, Deutsche Bank. John, could you just give us a bit of a longer term outlook for your CapEx? What you've said here, $26 billion for 2011, there's an interesting split here of around 40% gas, 10% exploration.

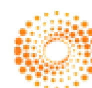
Is it reasonable when we look at the northwest Australian investments to assume that will step up to be more gas investment and an overall higher level or do you see yourselves cutting back from spending in order to maintain that level at around the $26 billion? Thanks.

John Watson - *Chevron Corporation. - Chairman, CEO*

Paul, as you know, we've had a practice of really only putting out one year at a time in our capital budget program. But then giving you a lot of information on projects so that you can do some analytical work. We've been reticent to put out guidance beyond that because we've seen how the cost of goods and services can be volatile and some projects can slip and slide in the out years. So we're not going to give specific guidance right now going forward.

What I can tell you, and you'll hear more about our LNG program from George and Jim, but we're not yet at our peak for LNG spending. It's about $6 billion this year. And it could be somewhat higher than that. But remember, we've got projects that are coming off of big spending periods as well. The Athabasca Oil Sands Project and others are ramping down.

So our spend is a function of our portfolio of spend. And Pat showed you our spend in relation to cash flow. So we're always monitoring to try to keep a prudent balance while delivering on the fundamental growth that we've laid out. Mark?



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Mark Gilman - *Benchmark Co. - Analyst*

John, thank you. Mark Gilman, Benchmark Company. Question for Mike on the Pascagoula lube project. I guess I wonder a little bit why a U.S.-based location for that project rather than an Asian location. Is it the refinery infrastructure at Pascagoula which is particularly advantaged for such a project relative to Yeosu or perhaps even Singapore? And then I guess, also, I assume that that project at Pascagoula is at the expense of the diesel yield. Just please confirm or disaffirm that.

Mike Wirth - *Chevron Corporation. - EVP - Downstream and Chemicals*

So, the first question, Mark, a couple of things drive it. Number one, we had some capacity within the refinery in our hydroprocessing equipment that was unutilized or underutilized. And so it gives us some capital efficiencies in upgrading that equipment to be part of this project. Additionally, a good portion of the demand growth here on these Group-2 and beyond base oils is actually driven by European markets as well as North American markets as you get more advanced engines that have different needs.

And so while we certainly see transportation fuels demand growth being driven in Asia and the non-OECD, in the base oil and lubricants market the developed economies are seeing a shift from the lower quality to higher quality base oils, stranding some of the older investments in group one base oils and creating a growing market for the premium base oils. So Pascagoula is well-situated to serve demand growth in Europe, North America and in Latin America.

I mentioned that we've built a plant at Yeosu already, which is feeding into Asian demand. And we could potentially see other investments in Asia over time to continue to build on our technology and leadership in this sector. But the Pascagoula project is a very good project on its own merits.

It will not come at a big penalty to diesel production because of the fact that we're able to use this slack hydroprocessing capacity within the refinery. So it's actually going to be additive as opposed to a tradeoff. Now, it will give us some increased flexibility to continue to flex between the two markets, between base oil and diesel. And as you have as much hydroprocessing as we have in some of our refineries, that's a real advantage as both of those have been high margin in attractive markets and you can optimize your yield structure into those two product segments.

John Watson - *Chevron Corporation. - Chairman, CEO*

Paul?

Paul Cheng - *Barclays Capital - Analyst*

Thank you, John. Paul Cheng, Barclays Capital. John, from a strategic standpoint, I mean look like in the recent months or over the last year the market is willing to pay a very high price in the M&A transaction for upstream assets. And clearly, that seems to be higher than what your stock is being valued in the stock market.

So, from the management standpoint, how are you looking at that as a possibility of Chevron being far more aggressive in selling some of your marginal assets and do a far bigger one-time share buyback program to recognize and knock that value. Thank you.

John Watson - *Chevron Corporation. - Chairman, CEO*

Well, Paul, we routinely pare the tail in our asset program. We're doing it in a big way in the downstream business now and we're getting good values for the marketing assets that we've been selling, in particular that Mike talked about.

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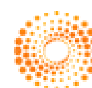

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On the upstream side, we also routinely pare the tail. Over the last five years we've sold in total some $10 billion in assets. Our Cook Inlet assets in Alaska are for sale right now, and we have other smaller sales that take place regularly. We think part of the value proposition that we have going forward is the exposure to commodity prices in our stock.

And we have found that it's very important to be sure that we've fully assessed the properties that we have before we sell them. The market isn't generally irrational and we want to be sure that we fully assess the market. A lot of the assets that we have have exposure to improvements in technology, to increased recoveries over time. And so taking short term actions to monetize assets may not always be the right thing to do for the shareholder over time. But we're not hanging onto assets beyond the point at which somebody else can do more with them than us. Yes? It's Arjun.

Arjun Murti - *Goldman Sachs - Analyst*

Thanks, John. It's Arjun Murti with Goldman Sachs. Just a downstream question. You noted the very strong non-OECD growth, which looks a lot better than the OECD. You do have a great position in Caltex. And unlike some of your large peers, you're not burdened with a particularly large OECD presence.

Would Chevron consider someday not owning their U.S. downstream business, spinning it off, IPOing it? I know you're committed to integration, but you can get that via Caltex. Pat noted the low PEs. If you aren't willing to spin out your U.S. downstream, do things like MLPs or other value creation opportunities potentially make sense for Chevron? Thank you.

John Watson - *Chevron Corporation. - Chairman, CEO*

Yes, let me talk about that. A couple of things. First off, the majority of our downstream business in Asia is held in joint ventures. The real core of the technical strength that we have in our downstream organization is in the United States.

And it's interesting. As I look at our business and reflect back on my 30 years with the Company, there's never been a time during the last 30 years when it's been more important to be an integrated company. If I look at the nature of the projects that we have, increasingly they have a manufacturing component, or LNG plants and GTL plants, heavy oil processing, all of these require real technical experience there.

Moreover, the feedstocks that we're seeing are increasingly challenged, if you will, high sulfur, heavy, difficult-to-handle feedstocks. And having the flexibility of our refining system to process those and to test those and understand their characteristics, we think is important.

Now, Mike's on a path of improving the downstream performance. And so our downstream has to carry its weight in terms of its returns. But you can see from the numbers that he's shown that we can do that. Adding complexity to the ownership structure of our downstream business is not something that I would look for us to do.

We're spending the lion's share of our money on the upstream, 85% of our capital is going that way. And that trend will continue. But a strong viable downstream business we think is important to being able to handle our upstream business as we go forward. Yes?

Ed Westlake - *Credit Suisse - Analyst*

Just a question on strategy again. Obviously, post Atlas, you've seen a technology revolution in the nonconventionals. You've got this big offshore portfolio that you've been very skillful at exploring and developing. I think last year you said the returns were perhaps not competitive in the prices. But as the technology improves in the nonconventional, aren't the returns improving relative to your offshore? And so can you talk about how Chevron is positioned in nonconventional?

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John Watson - *Chevron Corporation. - Chairman, CEO*

I wasn't going to talk about upstream matters, but that sounds like an M&A type of question, so I'll answer it now. What we said a year ago was that we saw valuations for unconventionals that were a bit out of line with our view of value. And so we didn't see it as the right opportunity at that time.

Similarly, we said that we didn't see the value proposition in Iraq at that time. So it was more a valuation question when we spoke about unconventionals then than it was anything else. And at that time we were also acquiring opportunities in European shale gas, Canadian shale gas, and we have our own historical positions as well.

So our view wasn't so much that shale gas wasn't a good place to be, it was just the valuations at the time were strong, so we waited. And we struck a deal that made sense for us in terms of the price point. It also had characteristics that we thought were very good. it was in a low cost basin predominantly in the Pennsylvania Marcellus. It also had a carry associated with it. so even with the low gas prices we're seeing today, on a go-forward process it competes in our portfolio.

So over time, no doubt there'll be technical improvements in shales. And if there are opportunities for us, we'll consider them. But we always look at value here and we just didn't see it when we were talking about this subject a year ago. Yes, Jason?

Jason Gammel - *Macquarie - Analyst*

Jason Gammel with Macquarie. Mike, very specifically on the refinery decision in Hawaii, in terms of profitability enhancements, can you kind of break out what is cost savings versus yield efficiency and how much is just your assessment of the jet market? And then where do you think this refinery can actually rank on a profitability per barrel metric with the rest of your refineries?

Mike Wirth - *Chevron Corporation. - EVP - Downstream and Chemicals*

Jason, I don't want to give you specifics on that, but I think that everybody realizes that's a small refinery. It's not an especially complex refinery. It's got a somewhat isolated and finite market. And so we're really in the space of optimizing every dimension of performance there. And as we looked at our alternatives -- and we've been in the market as a seller so we had a pretty good idea of what interest there was from buyers for what kinds of assets and where. We've got to look at value creation for our shareholders.

And so a disposal strategy was not as competitive as accessing value that we saw in the market, restructuring contracts, some modifications as to how we run the refinery to improve the margin capture and cost things. So it was a series of very specific improvement initiatives that have been identified. In the scale of things, given the size of the refinery in our portfolio, relatively modest improvements in each of those. But it keeps the refinery competitive within our system.

And I think as long as we don't face enormous capital investment to upgrade it, I think it continues to deliver value and support our return strategy. That may get revisited if we reach a point we've got a significant capital investment that would have to be made, but that would be some years down the road. And so as I said, part of the normal process, we always review our assets on that basis.

John Watson - *Chevron Corporation. - Chairman, CEO*

We got time for a couple more.

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Steve Roukis - *Matrix Asset Advisors - Portfolio Manager*

Steve Roukis from Matrix. Wanted to ask you about the WTI-Brent spread these days. How are you benefiting? Where are you benefiting? And then some people think it could be a multi-year trend. I wanted to get your explanation of that.

John Watson - *Chevron Corporation. - Chairman, CEO*

Sure. Mike's well equipped to talk about that.

Mike Wirth - *Chevron Corporation. - EVP - Downstream and Chemicals*

So I won't spend a lot of time on the fundamental drivers of the WTI-Brent disconnect because I think those have been covered pretty well in a number of different places. And I think they've been largely accurate, that it's really congestion at Cushing, a lot of increased production in the MidContinent, and it's a logistics challenge. And you've seen the strong demand for the Brent in the light crudes, particularly driven by Asia.

We don't think this will resolve itself completely in the short term because the real changes require pipeline investments and changes, permanent substantial changes in logistics in and out of Cushing. Those incentives are strong for people to make those investments with the kinds of differentials that we've seen now. In the near term it's a pretty active logistics market for barges, rail cars, other ways of moving that crude to refineries that might not normally get it, but can afford to pay a little bit more transportation today.

So we think in the medium term, and a number of folks have said kind of two to three-year timeframe, we think that's not an unreasonable expectation, that you'll see the market address that disconnect with some of the investments and changes that would bring things back into a more historic relationship in that period of time. So that's kind of the timeframe.

Relative to our portfolio, we have exposure in the downstream to WTI priced crudes at the Salt Lake City refinery and also at Burnaby because it's fed out of inland Canadian production. We also have some exposure in our upstream with midcontinent upstream production that prices against WTI.

Interestingly, two things. One, it's a relatively small volume in our overall portfolio, both our upstream and our downstream. And two, the volumes are coincidentally fairly similar as well. And so what you might say we're giving up in one segment, we're recovering in the other segment. And net-net to Chevron, the impact of it isn't a big swing one way or another. If we were an independent producer or an independent refiner located just in the MidContinent, the impacts would be quite a bit more extreme. But to us, really, it's not a material driver of performance.

John Watson - *Chevron Corporation. - Chairman, CEO*

Okay, one more. Let's try one back there. I think this will have to be the last question for now. Hold the downstream and other questions...back there.

Mike Wirth - *Chevron Corporation. - EVP - Downstream and Chemicals*

Over at the end.

John Watson - *Chevron Corporation. - Chairman, CEO*

Pick someone in the corner. Okay.

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Faisel Khan - *Citigroup - Analyst*

Faisel Khan with Citigroup. On your operating costs and SG&A slide you kind of showed an up-tick from $22 billion to $23 billion. Can you give us an idea how you expect that to trend into 2011 and what are the major variables that impact that number?

John Watson - *Chevron Corporation. - Chairman, CEO*

Well, sure, I'll make a couple of comments and let Pat. That's SG&A corporate-wide, excluding fuel. And we've had programs in place to keep those numbers in check. I'll let Pat comment a little further.

Pat Yarrington - *Chevron Corporation. - VP, CFO*

Right. I think broadly there, one thing I want you to be sure to keep in mind is that we have been growing production. And with additional production you're going to get additional costs. But and so you should see a little bit of an up-tick on the upstream side, volume related alone.

On downstream and corporate, with all the effort that Mike has underway, plus strong cost focus on the corporate sectors, I think you should see pretty flat to downish components in the downstream sector. So, overall, I think you should expect us to have a very competitive profile going forward. Any sort of up-tick that you see would be upstream related and mostly associated with volume increases.

John Watson - *Chevron Corporation. - Chairman, CEO*

Okay. I know there were a few other questions that were out there. After George and Jim Blackwell speak about the upstream, we'll all come back up and you can ask questions about any subject you'd like. So we'll take a ten-minute break right now. Remember, take your badge with you so that you can get back in. Thank you very much.

(BREAK)

PRESENTATION

George Kirkland - *Chevron Corporation. - Vice Chairman, EVP - Upstream and Gas*

First, let me say good morning. And it's good to be back with you and review Chevron's upstream business.

We had a great 2010, both financially and operationally. Today I'll provide detailed insights on 2010 performance and outline our plans for 2011 and beyond. First, though, an overview of Chevron's upstream portfolio.

Chevron has upstream operations in nearly all of the world's key hydrocarbon basins. We operate in 26 countries through four regional operating companies and 15 business units. Our strong local presence is supported by centralized functional expertise. We believe our organizational structure provides us a competitive advantage.

Our current production and resource base are about evenly divided across the four regions. Production capacity stands at about 2.9 million barrels a day, and proved reserves are 10.5 billion barrels. Today's presentation will focus on three areas - performance, strategies and growth. First, though, a few comments on safety.

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As John mentioned earlier, Chevron's safety performance in 2010 was excellent. One area that I would like to focus on is drilling safety, in particular what makes Chevron unique and what we have learned from the Macondo incident. Chevron has provided its own well controlled training since 1972. Very few other companies had their own training programs. This critical competency is one we are more confident in doing internally.

Chevron is also unique among our peers in having an in-house team focused on the design, installation and testing of blowout preventers. This is a key aspect of drilling safety and one where we are unwilling to compromise. Similarly, we have the only operator owned cement lab in North America, providing unmatched quality control and serving as another example of what makes our focus on drilling safety unique.

We took the Macondo incident very seriously. We reviewed our existing processes and we're increasing our emphasis in a few areas. First, we widened our definition of what it means for a well to be complex, taking into account both technical and environmental factors. Now, even more wells will have increased oversight of their design and operations to further ensure a consistent approach to managing risk.

Second, we are reinforcing the use of our management of change process. We use this process to evaluate scope changes and to ensure that these changes do not increase risk. And finally, we're significantly increasing our oversight of non-operated wells.

Now let's turn to the three topic areas that I mentioned earlier. In the performance section I'll summarize our accomplishments of the past year and our competitive position. In the strategy section I'll review the additions to our portfolio and highlight our investment strategy.

And finally, I'll close with our growth story, covering near term expiration plans and providing an update on the projects that will sustain our production growth over the long term. Jim will cover an important part of our growth story, our Asia-Pacific businesses, where we are building legacy positions in natural gas.

In 2010, net production rose to 2.76 million barrels per day, an increase of 2% over 2009 and an increase of more than 3% on a price-adjusted basis. Since 2008, Chevron has delivered 9% organic production growth, a significant achievement. Our 2010 results exceeded the outlook issued last March by a substantial margin and also outpaced our midyear guidance.

This chart shows higher oil prices reduced net entitlements by more than 1%. Our base business production declined about 3.5%. This represents a significant improvement from our 5% to 6% guidance and reflects the benefit of improved efficiency and reliability. And our major capital projects delivered 170,000 barrels per day of growth. I'm very pleased with this performance. And as John showed earlier, it continues to demonstrate our consistent delivery of production growth.

Next I'll cover reserves. On an SEC basis, Chevron replaced 24% of our production in 2010. Our reserve replacement is lower than we have seen in recent years and is a result of major capital project timing and the impact of SEC reserve standards. It is important to remember that proved reserves are established consistent with these standards and presently reflect only a portion of the expected recovery from our portfolio.

The next slide will provide more context on our reserves and the booking process. Since 2004 we have sanctioned more than 30 greenfield major capital projects. This subset of our portfolio is expected to recover more than 5.5 billion barrels of oil-equivalent, and yet only 40% of the expected recovery is currently booked as proved reserves. These resources will be transferred to proved reserves over time.

As we continue to invest we will satisfy the SEC economic produceability test and then begin booking reserves. As additional development wells are drilled, reservoir data provides another avenue for adding reserves. And finally, both production performance and enhanced recovery response will expand the reserve base.

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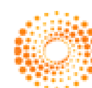

Remember, we don't base our investment decisions on what we initially book as proved reserves. Our decisions are based on the economics of the expected recovery. Major capital projects are critical for growing production and reserves.

Now let's look at our recent project startups. Last year we began production at three major capital projects and continued to ramp up at another six. Our three project startups were an expansion of the Athabasca Oil Sands Project in Canada, the Perdido hub in the deepwater Gulf of Mexico, and the EGP-3A project in Nigeria.

Significant growth barrels were also added from the ramp-up of key projects, including Tengiz SGI/SGP in Kazakhstan, Tahiti in the deepwater Gulf of Mexico, and Frade in Brazil. These projects are a part of the portfolio that has really been a growth engine for Chevron.

Our growth story over the past four years has been based on the strong execution of our major capital projects. More than 20 projects have ramped up and are delivering more than 600,000 barrels per day of net production.

Of these projects, 16 began production in 2007 and 2008. These assets are shown in blue on the map and on the chart on the right. They have reached their expected peak production and from now on will be categorized as base business.

By 2013, new projects are expected to deliver an additional 300,000 barrels per day of net production. And we'll cover some of these new projects in just a few moments.

Now let's take a closer look at our base business. Over the past several years we have seen real gains in our base business. These are a direct result of a systematic focus on reliability, maintenance and de-bottlenecking. The chart on the right shows our internal measure of production efficiency.

Since 2005, we've seen consistent improvement in this metric, and it provides a specific example of gains in our base business operations. When we look forward, our outlook for base decline is 4%, a significant improvement over the previous 5% to 6% guidance and a reflection of our focus on our base business.

This chart updates our historical cost structure relative to our peers. We have consistently been very competitive in this area. In 2010, our cost structure was $24.93 per barrel, $2.20 higher than in 2009. The increase is associated with a few factors. First, higher oil prices have resulted in higher royalty payments and taxes other than those on income. Together, these increases added $1.45 to our cost structure in 2010.

Second, we've continued to invest in our project queue and bring on-line new projects, resulting in increases to our DD&A. We continue to maintain our focus on cost discipline and have kept 2010 controllable production expenses flat with 2009. Competitor data for 2010 is not yet available. However, based on our consistent performance, we expect to remain very competitive in the peer group.

Another competitive metric to look at is cash margins. In 2010, Chevron's cash margins were $27.87 per barrel of oil-equivalent. Based on the available data, Chevron's cash margins are nearly $6 a barrel above our nearest competitor. This is a result of our continued focus on selecting the right projects that deliver strong cash flow and not just empty barrels.

2010 data for BP and Shell are not yet available, but we expect to retain our leading position.

I'd like now to turn our attention to earnings and return on capital. This chart shows Chevron's financial performance relative to the competition. Our 2010 margins of over $18 per barrel outpaced the nearest competitor in our peer group by more than $3.25. We've led our peers in this metric for six consecutive quarters. As you would expect, I'm really pleased with our leading position.

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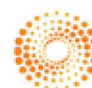

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Competitor ROCE results for last year are not yet available. However, our return on capital employed of 23% is expected to rank at or near the top of our peer group. We delivered top-tier returns over a long period of time. Our upstream ROCE has averaged 25% over the past five years.

In summary, we are delivering on our commitments and leading our competition on key operational and financial metrics.

This concludes the performance section. I'll now move on to discuss our strategies. Over time and across a range of business environments, our upstream strategies have proven to be successful. Let's review them.

In order to grow profitably in core areas and build new legacy positions, we focus on six strategies - delivering operational excellence through a continuous focus on safety and environment performance, keeping a sharp focus on our base business and minimizing our production declines, selecting the right major capital projects and then executing them with excellence, growing our resource base through continued expiration success, commercializing our large undeveloped natural gas resource base, and capturing new core positions.

Today, I'll spend most of my time in the strategy section on our recent portfolio additions. I'll also look at the 2011 upstream capital investment outlook. Since late 2009, additions to our portfolio, including Atlas, have added more than 14 million acres. This increases our leasehold by more than 10% and brings a tremendous set of new opportunities.

Our high initial working interest provides us flexibility for us to leverage risk and financial commitment. And these opportunities are aligned with our approach to acquire low cost, early in life assets with long-term organic potential. If successful, these additions have the scale to really move the needle.

Let's take a closer look at a few of these additions. Our deepwater exploration efforts are focused on areas that have huge potential and our 2010 additions in Liberia and China definitely fall into that category. In Liberia we acquired a 70% working interest in three blocks covering almost 2.5 million acres. This large area is located in an important new exploration trend. We are maturing prospects and will acquire seismic data and drill the initial exploratory well in 2011.

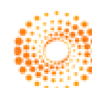
In China's Pearl River Mouth Basin, we acquired more than five million acres of new leasehold across three blocks. We're developing a prospect inventory from 3D seismic and will drill the first well this year. Note we are the operator in both these areas.

Next I'll review our shale gas additions. Our recent acreage additions in Poland, Romania and Canada have attractive resource potential and proximity to established markets. In Poland, our leasehold exceeds one million acres. We are currently acquiring seismic data and plan to start our drilling program later this year.

In Romania, we acquired four blocks covering more than two million acres. Over the next year we will progress our technical work as we evaluate this opportunity. And in Canada we have acquired approximately 200,000 acres in the Durvenay shale. Again, we are advancing this opportunity and will begin our exploration program in late 2011. Also note that we hold a 100% working interest in each of these opportunities.

Now let's look at our newest addition, Atlas. We're very pleased with the Atlas acquisition. These assets are in one of the sweet spots in the Marcellus shale, an area with some of the lowest gas development costs in North America. Integration is on track and we expect transition activities will continue through the year.

We have an active year planned. There are currently nine rigs operating in the Marcellus and we expect to drill a total of 70 wells this year. We expect production from both the Marcellus and the Antrim shales to average about 115 million cubic feet of gas per day. And we have a drilling carry in place which significantly reduces our C&E.



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We are well-positioned for ramp-up of a multi-year drilling program. And by blending the shale gas experience of the Atlas organization with our technical and major capital project expertise, we will create the greatest value from these assets and other similar opportunities around the world. Some of you have asked our strategic view on shale gas. I think these recent additions will show that we acquired the right opportunities at the right time for the right price.

I'll now turn to our investment strategy. As Pat mentioned, this year's upstream C&E budget is $22.6 billion, an increase of nearly 20% over 2010. We're moving into a period of higher capital spending as we fund new legacy projects, including sizeable investments in our LNG mega projects.

In 2011, 10% of our upstream budget is targeted for our exploration program. 60% is directed to major capital projects. Our LNG spend is about $6 billion and is focused on advancing our Angola LNG, Gorgon and Wheatstone projects. The remaining 30% is for our base business, which is about flat with last year's spend.

Next, let's take a closer look at our investment relative to our peer group. Over the last several years I've heard many comments about Chevron's upstream capital intensity. This slide has two charts comparing Chevron and our competitors' historical upstream organic and inorganic investments. The top chart shows cumulative capital investment since 2002. The bottom chart shows cumulative investment per produced barrel.

Chevron's cumulative capital spend is on the low end of our competitor group, where our cumulative spend per barrel is in the middle of the pack. Although our investment level has been in-line with our peer group, the financial results of our investments have been superior. We've made the right choices, we've delivered strong organic production growth, as well as achieved the highest cash and earning margins and top-tier ROCE.

This concludes the strategy discussion. Now I'll discuss our growth plans, beginning with exploration.

As the graph on the right shows, since 2002 we've added approximately 9.6 billion barrels of oil-equivalent resources. In 2010, our exploration activity was significantly reduced by the drilling moratorium in the deepwater Gulf of Mexico. Otherwise, we had another good year with an exploration success rate of 57%, ahead of our nine-year average of 47%.

The circles on the map show the location of the key 2009 and 2010 exploration discoveries. In 2010 we announced five natural gas discoveries in western Australia, each adding to our significant gas position. We were successful in the pre-salt play in Angola Block 0 and also drilled an oil discovery in the Lucapa area of Angola Block 14. And our success continued in the Congo, where we announced two oil discoveries earlier this year.

So, how does our exploration performance compare to the peer group? According to Wood Mackenzie, Chevron remains the leader in exploration resource replacement. As shown on the left chart, between 2002 and 2009, Chevron had an 89% resource replacement ratio, significantly higher than the nearest competitor and 50% higher than the competitor group average.

Also according to Wood Mackenzie, Chevron's underlying finding costs for the period 2002 to 2009 were $1.85 per barrel, 32% lower than the average of our competitor group. Together, the combination of consistent resource additions and capital efficiency provides us a competitive advantage for organic growth.

Our overall resource growth and distribution is shown on the next slide. Since 2004, our unrisked resource base has grown 15%, or about 8 billion barrels. This is significant when you consider that in the same timeframe we produced about 7 billion barrels. We also divested of another 5 billion barrels of resource.

The bar graph on the right shows the geographic distribution of our 64 billion barrels of unrisked resources.

Now let's review our 2011 exploration plans. We plan to invest $2.3 billion in exploration in 2011. As we have discussed in the past, the majority of our spend is directed towards key focus areas and new test basins. In 2011, our key impact wells include

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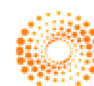


two exploration wells in Australia and three wells in the deepwater Gulf of Mexico. In the Gulf, we'd like to finish the Moccasin and Buckskin wells that were started prior to the moratorium. And also drill the Coronado well.

Beyond our focus areas, we also plan to drill wells in several of our test areas. Of particular note are those in Liberia, the Pearl River Mouth Basin in China, and the ultra-deep gas play on the Gulf of Mexico Shelf. In total, we expect to drill about 60 exploration and appraisal wells worldwide.

Now I'll cover Chevron's major capital project inventory. Over the next three years, 25 projects with a Chevron share of over $250 million are scheduled to start production. Nine of these projects, as highlighted on the map, have a net Chevron investment exceeding $1 billion. This year our startups include Tahiti 2 in the deepwater Gulf of Mexico, Agbami 2 in Nigeria, AOSP downstream in Canada, and the Platong II project in Thailand.

In 2012, planned startups include Angola LNG, Chuandongbei Stage 1 in China, and Usan in deepwater Nigeria. Our 2013 startups include Papa-Terra in Brazil, our gas-to-liquids project in Nigeria, and the remaining two stages at Chuandongbei. In addition to our startups, over the next three years we expect to reach a final investment decision on 13 projects where Chevron's investment is greater than $1 billion.

This year we plan to section -- sanction the Wheatstone LNG project in Australia, the Vietnam Block B gas project, and an expansion of the Clair field in the United Kingdom. In 2012, the next expansion phase at Tengiz should reach FID. And in 2013, Train 4, the first expansion of the Gorgon project is targeted for sanction. These assets will deliver growth and production over the coming decades.

I'll now cover some of our significant upcoming startups in more detail. At their production peak, the projects on this slide are expected to add more than 300,000 barrels per day net. Agbami 2 includes 10 new development wells, which will enable production to continue near 250,000 barrels per day for an additional six years.

Also, in deepwater Nigeria, the Usan project is expected to start up next year, with a peak capacity of 180,000 barrels per day.

Angola LNG is a single train, 5.2 million ton per annum facility. With our partner Sonangol, we're advancing this project toward a 2012 startup. Peak production from this project is expected to be 175,000 barrels of oil-equivalent per day.

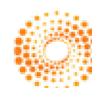
Finally, the Papa-Terra project is expected to start up in 2013. When completed, it will represent Chevron's largest investment in Brazil to date.

Let's now review some of our key deepwater Gulf of Mexico projects. In 2010 we sanctioned three major projects in the deepwater Gulf of Mexico, Tahiti 2, Jack/St. Malo and Big Foot. The second phase of development at Tahiti is designed to increase recovery and maintain production near capacity.

Jack/St. Malo is another example of how Chevron is advancing a leading queue of major capital projects. The project is estimated to cost $7.5 billion, with startup plan for 2014. This will be a hub development that provides the necessary infrastructure for other discoveries in the area.

Most recently, the $4 billion Big Foot project was sanctioned in December 2010. It will be Chevron's sixth operated deepwater facility in the Gulf of Mexico when production starts in 2014.

Chevron's willingness to sanction these projects underscores our commitment to the region and to safely developing deepwater resources. We were pleased to hear that the BOEM has issued two deepwater drilling permits. This is a step in the right direction. Over the past year, our industry has made enormous progress in raising an already high safety standard. And Chevron believes now is the time to clear the backlog of deepwater permits and to get back to work in the Gulf of Mexico.



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Now let's take a look at the technology that enables success in the deepwater basins. To get the most from our deepwater opportunities, we need to deploy a wide range of innovative technologies. In exploration, our seismic imaging capability allows us to better identify prospective areas. With superior data quality, we have been able to build a differentiated prospect portfolio.

In drilling deepwater wells, Chevron has played the leading role in development of dual-gradient technology. This is a revolutionary approach allowing deepwater wells to be drilled with lower risk and in less time. Technologies like the single-trip multi-zone frac pack improves the effectiveness and reduces the cost of deepwater well completions. This tool has undergone successful onshore field trials and we anticipate its use in Lower Tertiary fields such as Jack/St. Malo.

Production technology is also an important area. We're using seafloor boosting and intelligent wells in our current phase of deepwater developments, like Jack/St. Malo, to maximize production rates and improve ultimate recoveries.

Next I'll cover another area where technology plays an important role. Chevron is a recognized leader in heavy oil technology. Two of our major thermal operations, the Duri field in Indonesia and the Kern River field in California, have each produced more than 2 billion barrels of oil. At Kern River, primary recovery would be about 10% of the oil in place. But by integrating our thermal technology and know-how, recovery factors could reach 70%.

To better understand and improve performance of these thermal reservoirs, we use unprecedented levels of surveillance data to simulate the reservoir and manage heat. In our San Joaquin Valley business unit, the integration of people, process and technology has improved our reliability and our cost structure. Over the past several years we've seen a 35% improvement in our well reliability as a direct result of these efforts.

And our expertise is globally deployed. Our International Heavy Oil Center of Excellence in Bakersfield is training teams from Indonesia, Venezuela and the Middle East. Our work in the Partitioned Zone is a great example of how our expertise in heavy oil can pay dividends in the future.

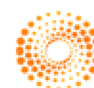
Since 2009 we've been operating the Large-Scale Steamflood Pilot in the Partitioned Zone between Kuwait and Saudi Arabia. This project is evaluating the feasibility of thermal recovery of heavy oil from the Wafra Eocene carbonate reservoirs. We're very pleased with the early results. The reservoir has accepted steam at design rates and production has increased by more than 600% over the initial baseline.

The impact of steamflooding is significant. A potential full field expansion, now under evaluation, targets production of more than 500,000 barrels per day and a recoverable resource of more than 6 billion barrels. This early pilot success makes us optimistic about other heavy oil opportunities in the Middle East region.

I'll now turn to another region that is very important to Chevron. The Caspian is a core growth area for us. Late in 2010 we reached a final investment decision on expansion of the Caspian Pipeline. This $5.4 billion investment will increase throughput to 1.4 million barrels a day by 2016. This project is a critical step in enabling a further expansion at the Tengiz field.

Currently we're producing about 600,000 barrels per day at Tengiz. The SGI/SGP expansion, completed in 2008, is performing well and plans for the next expansion at Tengiz are in progress. We expect to begin front-end engineering and design this year. The Tengiz Future Growth Project is similar in scale to SGI/SGP and will increase production by 250,000 to 300,000 barrels per day, bringing total field production to approximately 900,000 barrels a day.

Next we'll cover our natural gas portfolio. As John mentioned earlier, Chevron holds more than 150 trillion cubic feet of unrisked gas resources. Over half, about 80 TCF, is in the Asia-Pacific region. This is up considerably from the slide I showed you last year. We have a powerful and growing advantage in the Asia-Pacific region. And to tell you more about this area's growth potential, I'll turn the podium over to Jim.



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Jim Blackwell - *Chevron Corporation. - EVP - Technology and Services*

Thank you, George. Good morning, everyone.

We have a great story to tell about our plans for growth in Asia-Pacific. Chevron is the leading multi-national oil company in production and resources in the region. We operate across energy spectrum, producing oil, pipeline natural gas, LNG and geothermal. We're the largest producer in Thailand, Indonesia and Bangladesh, and the largest resource holder in Australia. We're also active in China, Vietnam, Cambodia, Myanmar and the Philippines. Our operations in the Philippines and Indonesia make us the world's largest producer of renewable geothermal energy.

Before I discuss the important steps we're taking to grow our business, let's revisit the Asia-Pacific natural gas demand. As John said, there is broad consensus on the growing role for natural gas in the world's future energy mix. On a global basis, natural gas consumption is expected to grow 50% by 2035. The center for this growth will be Asia, which is expected to grow at three times the rate of the global demand. Our existing production together with our LNG projects position Chevron to be a leading energy supplier to fuel this growth.

Now I'll talk about a few of the projects that will help us meet Asia's growing demand. The first three projects I'll discuss will supply natural gas to growing local markets through pipelines. I noted that we're the largest producer in Thailand, and our Platong II development will expand our capacity by an additional 40%. The project will have a production capacity of 440 million cubic feet per day. We're now in the offshore installation phase and the project will start up this year, ahead of schedule.

Using our experience from Thailand, we're designing our Vietnam Block B project. The planned production is 520 million cubic feet per day, and we expect to reach a final investment decision later this year.

In Central China, the Chuandongbei project leverages our expertise in sour gas technology and our reputation as a safe and reliable operator. This project consists of three gas fields with a resource base of 5 trillion cubic feet. The fields will be developed in three stages, with a total production capacity of 560 million cubic feet per day.

Now I'll turn to another important part of our portfolio, liquefied natural gas. To start, I'd like to make two important points about our LNG portfolio. First, most of our LNG investments are in Australia, a preferred supplier for Asian markets. And second, these investments are expected to deliver substantial cash flow for many decades.

Within Asia-Pacific we have five LNG developments and two potential expansions, all in various stages of maturity. The chart on the left shows forecasted production growth associated with our global LNG portfolio. By 2017 our LNG portfolio, driven by Gorgon and Wheatstone, is projected to deliver over 500,000 barrels of net oil-equivalent per day.

Beyond that, we see continued growth from expansions at Gorgon and Wheatstone, plus our other LNG projects. For example, the Gendalo-Gehem project in Indonesia is currently in front-end engineering and design. And in Australia, the Browse project has moved into the design phase.

Let's take a closer look at the Australia developments. Gorgon is the centerpiece of our growth story. Everything about this project is huge - resources, production and infrastructure. The Gorgon and Io/Jansz fields hold more than 40 trillion cubic feet of gas, the equivalent of 7 billion barrels of oil.

Our initial development includes a three-train, 15 million ton per year LNG facility, a domestic gas plant and the world's largest carbon sequestration project. Startup is expected in 2014, and at full production the first three trains at Gorgon are expected to produce 450,000 barrels of oil-equivalent per day.

Gorgon construction is well underway, with over 20% complete. Critical milestones are being met. We've awarded more than $25 billion in contracts. We've completed an onshore construction village. Dredging is nearing completion. And module

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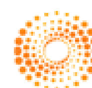

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fabrication is progressing well. The new Gorgon drilling rig is built and the first development well will be drilled this year. And today, we're reaffirming our cost estimate at US$37 billion and startup in 2014.

Now I'll turn to Wheatstone. Wheatstone is a two-train 8.9 million ton per year LNG facility and a domestic gas plant. Startup is planned for 2016 and production will ramp up to 260,000 barrels of oil-equivalent per day. We remain on schedule to reach a final investment decision this year. We've made excellent progress on marketing, having executed heads of agreements with Tokyo Electric, Kyushu Electric and Kogas. In total, about 80% of our equity LNG outtake is under long-term agreements.

Given the significance of LNG to our portfolio, I'll spend a few minutes discussing LNG pricing in the Asia-Pacific region. Unlike oil, gas markets and prices are regional. Approximately 60% of global LNG is delivered to Asian markets. Given the critical role of LNG in the regions energy supply, it commands a significant premium relative to natural gas in other parts of the world.

In 2010 the average price of LNG imported into Japan, a combination of both long-term and spot prices was two times the average natural gas price at the Henry Hub. The chart on the lower right shows an average of recent industry long-term contracts illustrating how closely LNG pricing in this region mirrors that of oil.

The green line represents gas prices at parity with the Japanese Crude Cocktail, which is the regional benchmark. Chevron's long-term contracts at Gorgon and Wheatstone are indexed to oil and priced near parity with JCC. Given the scale of these two projects, Gorgon and Wheatstone will play a key role in generating long-term revenues for Chevron.

This slide shows our net production forecast for Gorgon and Wheatstone. We see a long production plateau exceeding 420,000 barrels per day for more than 25 years. This combination of strong LNG pricing and sustained high levels of production will deliver substantial revenue for several decades.

Now let's look at our Australian resource position. We had ten discoveries in Australia during the past 18 months, underpinning potential expansions at Gorgon and Wheatstone. The yellow line on the chart shows our assessment of the growth in gas resource related to these two projects. At the end of 2010, our estimated total resource is almost 60 trillion cubic feet.

The Orthrus-2 discovery, announced last month, is the latest example of our continued exploration success. Below the white dashed line on the chart is the volume required to keep the foundation projects at Gorgon and Wheatstone at capacity for 25 years. The volume above the white line is available to support future expansions.

The green dashed line represents the additional volume needed to support a fourth train at Gorgon. We found enough gas for this expansion and plan to enter FEED in 2012. And we also have space for a potential fifth train. Wheatstone is well-positioned for Train 3 and further expansions. It is also a hub for third party resources.

In closing, these projects in the Asia-Pacific region will be among the most important investments for this company over the next ten years. This Wood Mackenzie chart shows that by 2020, these investments will propel Chevron into a top-tier position in global LNG supply. These investments are a key part of our project queue and will lead the way for Chevron's growth and long-term revenue generation into the future decades. Now I'll turn the podium back to George.

George Kirkland - *Chevron Corporation. - Vice Chairman, EVP - Upstream and Gas*

Thanks, Jim. I want to conclude today by highlighting three points, how we did in 2010, our outlook for 2011, and how we're positioning Chevron for the future.

Last year our upstream business safely delivered growth and excellent performance. Our exploration success brought us new opportunities and increased our resource base. We delivered superior projects that are fueling our growth today, while building the next generation of projects for tomorrow.

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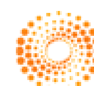

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In 2010 we grew production by 2%. And if you exclude price effects, our production growth was over 3%. And we've accomplished this while delivering the highest earnings and highest cash flow margins, with top-tier ROCE. We have strong momentum entering 2011. Our net production outlook is 2.79 million barrels per day based on an oil price of $79 per barrel. Consistent with our previous guidance, this will deliver 1% production growth.

Another key focus this year will be advancing our recent portfolio additions and integrating Atlas. And finally, Chevron is in an outstanding position to deliver long-term growth to our shareholders. With the performance we delivered in 2010 and on the strength of our 2011 outlook, we are on track to deliver consistent growth and performance over the long term. We will deliver a strong queue of organic opportunities.

And through the strength of our portfolio and consistent execution, we can reaffirm the outlook we first gave you last year. We expect our production to grow to 3.3 million barrels per day by 2017 and to deliver this growth with superior financial results. Thank you very much for your attention. I look forward to your questions. And now I'll turn the podium back to John.

John Watson - *Chevron Corporation. - Chairman, CEO*

All right, thank you, George. We've just given you an update on the Company. We showed you what we've accomplished and how we delivered on our commitments. We also showed you our plans for the years ahead. In wrapping up our presentation today, I'd like to summarize our value proposition.

Chevron is a company with tremendous performance momentum and a unique combination of strategic advantages. Throughout our presentation this morning we've described how we intend to keep that performance momentum going. And we've given you insight into each strategic advantage.

We've not gotten here by accident. We're advantaged today because of thoughtful, deliberate actions we've taken and capabilities we've built over the many years. We have a long history of exploration success, which has contributed to a large resource base. We've built a strong portfolio and developed the organizational capabilities and financial strength to drive continued strong performance in the future.

Let me come back and close with our key messages. We are and will continue to be a safe and reliable operator. We have an excellent track record in execution. We've shown we can bring on large complex development projects in rapid sequence. And we've shown follow-through on actions designed to improve downstream results.

Looking ahead, we have the best project queue in the industry and we are poised for a decade of growth. Let me say that again. We are poised for a decade of growth. And we're committed to delivering superior returns to our shareholders.

I hope you've gained some insights into our distinct and very attractive value proposition. I'm convinced we've presented a compelling case of why Chevron belongs in your portfolio and preferably in increasing proportions.

Let's now move on to your questions. I'd like Pat and Mike to join me up here so we can take both upstream and downstream questions. Remember to wait for the microphone to come before you ask your questions. And I'll start back there.

QUESTIONS AND ANSWERS

Evan Calio - *Morgan Stanley - Analyst*

Yes, Evan Calio, Morgan Stanley. Hey, John, your comments on the last conference call seemed to be very timely in hindsight regarding the Gulf of Mexico and the pace of activity. Since then we've seen several permits issued. Yet if environmental challenge

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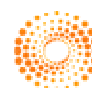

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ultimately kind of dictates the pace of activity, and it sounded as though you're assuming three wells drilled in 2011, when will the lack of activity impact for you out of that base decline target of 4% or jeopardize future production and growth in your plans?

John Watson - *Chevron Corporation. - Chairman, CEO*

Well, let me make a couple of comments, and then I'll let George follow. Regarding the guidance that we gave last quarter, Gary Luquette, who runs our North America business, and his colleagues have been working very closely with the BOEM for a long time. And our view has been that while it's a highly charged event, understandably in the wake of the Macondo incident, that we would get back to work.

So we did expect to start seeing permits around second quarter timing. And in fact, that's what we've seen. It's been very encouraging over the last week or so to see an acceleration of the rhetoric from the administration along those lines. And so we're very pleased to see that.

In fact, I'm going to see Secretary Salazar on Wednesday of this week with some of my colleagues and I expect to hear that they're committed to getting us back to work and that while there's a backlog, they're committed to working through that. There's a need for this country, as the third largest oil producer, to get back to work and contribute to the supply, particularly during a time like we're seeing with prices high.

In terms of sort of the thoughts on the pace of development of the permits, why don't I let George make a few comments.

George Kirkland - *Chevron Corporation. - Vice Chairman, EVP - Upstream and Gas*

The numbers I was talking about was exploration wells and the complication in getting permits is much greater on exploration wells because of all the unknowns that comes with drilling an exploration well. We have been drilling an injection well in Tahiti. We've just about completed that well.

We've got a second permit for an injection well that's been approved. So the rig that's drilling at Tahiti will move immediately to drilling a second injection well. That's part of our Tahiti 2 project. So it helps keep that project moving forward.

We have submitted the Moccasin well for permit. We hope to get that very quickly. That was a well that we were drilling prior to the moratorium being put in place. We would expect we would get that one and we would move forward with it, and Buckskin. So we expect those to come forward pretty quickly, to put our -- all of our rigs back to work, and then we start also needing permits for development wells.

Like John told you in the earlier call in January when he was on the call, the impact for us at this point in time has been more towards the exploration side and it has deferred some development wells on Jack/St. Malo. That will mean simply that we -- at startup on Jack/St. Malo we will be starting at a lower production level so we'll have more barrels of ramp-up post startup at Jack/St. Malo. And that's the biggest implication to date for us on the deepwater development.

We have continuing impact and the industry does on impacts on production in the Shelf, which has probably been a bigger barrel impact in the near term.

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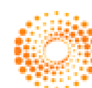

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Jason Gammel - *Macquarie - Analyst*

Thank you. Jason Gammel with Macquarie. A couple of questions on Australia. George, appreciate the comment about $25 billion already being contracted at Gorgon. Can you talk about any inflationary pressure that you're seeing at Wheatstone and how that affects FID?

And then on a broader basis, with all these LNG projects starting up, can you talk about what your oil to gas mix would be in 2017?

John Watson - *Chevron Corporation. - Chairman, CEO*

Well, let's talk a little bit about Gorgon. We went to FID during a pretty good time for the industry and we let contracts during a time period when the world was going through an economic recession. And so as Jim indicated, we have some $25 billion in contracts that have been let. And we staged these two projects with that understanding.

Now, activity has been ramping up. I do think it's important to understand which projects have gone to FID and which ones haven't. We do expect to go to FID with Wheatstone here later this year and think it'll be well sequenced with Gorgon.

Let me let Jim talk a little bit first about some of the things we've done to give us confidence. He reaffirmed the schedule and cost estimates around Gorgon. Let me turn it to him and then George can add a few comments as well.

Jim Blackwell - *Chevron Corporation. - EVP - Technology and Services*

Well, Jason, you know the -- as you know, with Gorgon the pricing was very good because it was right in the trough of the global financial crisis when those contracts were really bid in mid 2009, early 2009. And with $25 billion of that already under contract, most of those materials and costs are fixed and kind of behind us with Gorgon.

Now, looking forward to Wheatstone, of course we're getting close to a final investment decision with Wheatstone, so we have contracts out right now. And as those contracts come in over the next few months, we'll have a better understanding of cost there. But our view is we're still kind of close to the front end of a development queue there of LNG projects around the basin.

And it fits nicely with kind of the things we're doing with Gorgon as far as the early works rolling into Wheatstone and not being right on top of each other. So Gorgon and Wheatstone are spaced out well as far as labor demands and materials coming into western Australia.

John Watson - *Chevron Corporation. - Chairman, CEO*

George, anything you want to add?

George Kirkland - *Chevron Corporation. - Vice Chairman, EVP - Upstream and Gas*

I just reaffirm that we're going to know a lot more about Wheatstone. We've got these contracts out for tender and that's going to answer a lot of questions. But remember, we've got a lot of confidence because we've just been out with a large number of projects that we went to FID on. We got prices on Big Foot and we got prices on Jack/St. Malo.

So we have a really good understanding of the market, particularly in the shipyards, and equipment that goes -- that we need. So we've got a really pretty good understanding of that. Now, teller of the tale is this next step.

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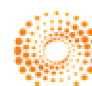

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The question on movement of our gas and oil percentage, we're in the low 30s right now. I think by the time we get almost -- most of these big gas projects on and we're going to be about 40%. So we're going to move from the low 30s up to a 40%. But we're still going to be about 60% on the oil side, even when we get all these big LNG developments behind us.

John Watson - *Chevron Corporation. - Chairman, CEO*

Right here.

Kate Minyard - *JPMorgan - Analyst*

Thank you. it's Kate Minyard at JPMorgan. On the slide when you talk about your major projects and the projects that are migrating from major capital projects into the base business, it looks as though the decline on those projects, just by the graph on the right, is actually about 6% annually over 2010 through 2013. So that would make them a little bit higher than the base business.

So can you talk about some of the differences between those projects and then the base portfolio? And then also as you look forward how your new project slate might also differ and drive a different decline rate. Thank you.

John Watson - *Chevron Corporation. - Chairman, CEO*

Yes, just a couple of comments, then I'll let George give you the details. We had to decide when we wanted to move -- we've been showing this queue of capital projects and at some point you have to move them into the base. And so this year we've tried to show you with -- for some continuity, that long queue of projects, then recognize that those -- many of those hit their peak and are on decline. So we've now separated those in that one chart.

And going forward, those -- the ones that I think are in blue on that chart will be -- it will be in the base. And they're also listed in the back of the book which ones are actually moving. And they do have a little bit higher decline. I'll let George talk about that and how that fits into our overall queue.

George Kirkland - *Chevron Corporation. - Vice Chairman, EVP - Upstream and Gas*

What we're trying to do for you is after projects have been typically on for about three years, we've got -- we've ramped up. We know what they're doing. They've reached their peak. We want to move them into our production base business and track their declines there.

Now, what's unique about this, we've got -- let's use an example. Agbami is going to be in this base that's moving over. Well, remember, Agbami 2 is a new major capital project. So, these new projects moving over have a decline, the way we've handled them, in the 5% to 6% range. You're correct. That number's very close to that.

But it doesn't reflect the add-on project developments that go with that, i.e. Tahiti 2, Agbami 2. So those projects or those initial investments still have much lower declines. They're flatter declines. But it does give you a snapshot of a project as it was invested in initially, what it looks like after three or four years, and another three or four years after that.

John Watson - *Chevron Corporation. - Chairman, CEO*

In the overall portfolio, the base decline's at 4%. Wasn't what we were talking about, which obviously has --

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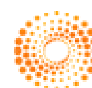

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George Kirkland - *Chevron Corporation. - Vice Chairman, EVP - Upstream and Gas*

I missed the one -- the follow-on longer distance question. As Gorgon and Wheatstone projects and Angola LNG, they get on-line, they have almost no decline. They're very flat. It's all dependent upon drilling additional wells to get to that resource. So they're going to have very, very flat decline rates.

So we're seeing a significant move to flatter declines, part of it base business, processes, what we have in place, but also part of it is the portfolio. Portfolio piece actually comes mostly later.

John Watson - *Chevron Corporation. - Chairman, CEO*

Mark?

Mark Gilman - *Benchmark Co. - Analyst*

John, thank you. Two Australia oriented questions, maybe for Jim. Jim, could you share with us in any way you can what kind of price reopener provisions exist that you're seeing in recent LNG contracts coming out of the region?

Also, it kind of seems as if your identification of resource is still running well ahead of the number of trains that you're committed to. And perhaps there may even be some space type limitations. What kinds of things are you thinking about to perhaps accelerate the monetization of that portion of the resource base that seems to be running ahead?

John Watson - *Chevron Corporation. - Chairman, CEO*

Let me make a comment. You recall last year when we talked about gas contracts, we can't speak for all the other contracts that are out there. For example, the chart that we showed was a third party source for what contract -- the slopes on contracts that are being put in the marketplace.

We do have intelligence sources. And most contracts have reopener of one sort or another. In general, those reopeners stay within the framework of those existing contracts. So it's not like they're starting over with those contracts. Probably that's all we can say about the contracts at this point. In terms of what we're doing to monetize the resources, Jim, why don't you talk a little bit more about that?

Jim Blackwell - *Chevron Corporation. - EVP - Technology and Services*

Well, Marcus, as you know, that's a really great problem to have, is more gas resources than you have development projects in the queues. As you know, with LNG developments, those are big investments, complicated investments. For us, we need to have the gas contracts in place, LNG offtake contracts before we make those developments. So we've moved ahead with Gorgon. We're getting ready to move ahead with Wheatstone.

With Gorgon we have space for two more trains. With Wheatstone we have space for, depending on the size of the trains, for either four more trains or three more trains with Wheatstone. And I'd remind you Wheatstone is also what we think of as an open access hub, so other third parties can bring their gas in there and we all share in the bigger scales of economies there -- or economies of scale.

So with respect to what are our plans for monetizing those is we talked about Train 4. We're getting ready to move into FEED for that. So that'll be the next expansion train with Gorgon. We already have the gas for that. And then we're working hard on Wheatstone Train 3 right now as we keep announcing more and more discoveries with respect to that asset.

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So that's the focus right now. And in addition we have the Browse LNG out in the Browse basin project that's moving into design stage. So it's a good problem. We have a lot of resource and we're working hard to monetize that.

John Watson - *Chevron Corporation. - Chairman, CEO*

Paul?

Paul Sankey - *Deutsche Bank - Analyst*

Thank you. Paul Sankey, Deutsche Bank. If I could just ask a couple of questions about risk first. George, what do you perceive to be the biggest risk regarding Gorgon now that you've got $25 billion plus of the contract signed out of $37? I guess you pretty much signed up for the gas delivery. Is it a question of timing now and you know exactly when it starts up or what would you perceive the biggest risk to be?

And then a follow-up, John, would be could you talk about the risk to shareholders from the situation -- legal situation regarding Ecuador, please?

John Watson - *Chevron Corporation. - Chairman, CEO*

Okay. Well, we'll tag team you on that one. I'll let George take the first one, I'll take the second.

George Kirkland - *Chevron Corporation. - Vice Chairman, EVP - Upstream and Gas*

Risk on Gorgon, we're in the -- we're in a stage, as we get more and more complete, the risk profile, as you would expect, is going down. 20% complete. We almost have the dredging done. Going in at the front end of this project, one of the areas that we had the most concern was on dredging.

A lot of environmental conditions that we had to meet, everything from turtles to damage to reefs, plumes, all this type stuff. And it has gone extremely well. So that one's just about behind us. You're always worrying on the front end about material delivery, major equipment delivery. We hit that really well. We're not seeing that.

As you look forward, it's going to be execution at Barrow Island, labor, making sure we have great labor relations, we're effective and efficient at the labor front there. That's probably the next one that sits out in front of us. We've got a camp in place. We could get our people there. That was an important one. So we've clicked off a lot of the critical ones, but a project is every day mitigating new issues that come.

And I want to give a plug for our people. We got great people. We have almost 600 of our Chevron people working on that project. And we've got the best project managers. We put our best people there to ensure that we deliver the best project.

John Watson - *Chevron Corporation. - Chairman, CEO*

IPA that review such things describe Gorgon as the best prepared mega project. And one of the things that we've instituted over the last year or so is once a month on every major capital project, there are about half a dozen real big ones in our queue, George and I, it happened with all the upstream projects, George and I meet with the OPCO head or the managing director and the project manager and conduct a review of the project, its status, and understand whatever the challenges of the day might be. And whether there's anything that we can do to assist them to make sure that we're on top of any concerns early on.

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It's proven to be a pretty effective process and getting it straight from the project manager has worked very well for us. So we're on top of our major capital projects. We've got to continue to execute Gorgon, but it's off to a good start and I think we're well prepared on that one and others.

Ecuador, different subject. Most of you have followed that case for many years. For those that haven't, I'll just briefly recap. Texaco was an operator in Ecuador and ceased being the operator way back in 1990. After they stopped being an operator they conducted a comprehensive assessment under the direction of the government to see what remediation work needed to be done. Common practice at the time.

After agreeing to the scope of work with the government, Texaco executed that remediation plan to Western standards. The federal government, Petroecuador and the local communities signed off on that remediation. That should have been the end of the story.

Since that time, U.S. plaintiff lawyers have entered Ecuador and a number of lawsuits, particularly the lawsuit that you recently saw a verdict came through after many years, a multi-billion dollar verdict against Chevron. We've known about this case for some time and have been fighting it. We've contended for many years that Texaco conducted their work properly, did the remediation that they were required to do to Western standards, with full signoff of the right levels of the government.

Well, with these suits, there's been a well orchestrated campaign to try to defraud Chevron and its shareholders. For many years it was somewhat of a he said, she said case. We knew the facts. But what we've seen in recent years through discovery motions that have taken place is increasingly courts outside of Ecuador are agreeing with us.

We've had multiple jurisdictions in the United States that have supported our contention of fraud. Most recently, right here in New York, where in the Second Circuit, Judge Kaplan put in place a stay, really, of enforcement pending a final determination of the merits of the fraud that we've alleged.

You may have seen that we have filed a racketeering and fraud case against the plaintiffs' lawyers and those that support them. They're enjoined from enforcing that verdict indefinitely pending outcome of the case in the U.S. Similarly, we have filed claims under the bilateral investment treaty in the Hague. And that court, that tribunal has also agreed with our contentions and provisionally put in place an order to prevent the government of Ecuador from enforcing this verdict.

So if you haven't read either our RICO filing or Judge Kaplan's ruling, I strongly encourage you to do that. This is a well orchestrated fraud and conspiracy against our company and we're going to continue to fight it very hard, as you would expect us to do. Next question, Arjun.

Arjun Murti - *Goldman Sachs - Analyst*

Thanks, John. Even after Atlas, one of the few apparent holes in your portfolio is the U.S. shale opportunity. I was wondering if you do see it as a hole, if it's an area you would like to expand in. You do now have the gas in the Marcellus. What about some of the liquids opportunities, Bakken and Eagle Ford, et cetera. And I think in the past you've commented that some of the joint venture terms were a little expensive. I know you'll be patient, but any comments on how you might address your U.S. shale strategy would be appreciated. Thank you.

John Watson - *Chevron Corporation. - Chairman, CEO*

Sure. You hit it about right. We have had an interest in the shale. And as you know, that business, for the most part, has been developed by independents that entered early. It's a big land man's game to accumulate acreage. And that's been the case. So the decision for a company like Chevron has been do we think we can add anything and is there a way for us to enter in a way that's economic.

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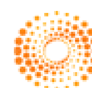

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We certainly have the technology to bring to bear and we like our entry in the Marcellus. And we'd consider other opportunities to add on to our position. We're not in a position of having to do that because we've got such a strong portfolio elsewhere.

In the liquids area it's pretty pricey right now, would be my comment. But again, we have the capability and the wherewithal if we see the right opportunity. Our business development work overall is done on a worldwide basis. We have a pretty nice system in place where we have a business development head.

And Jay Pryor, who reports to me, works closely with George, Jim and others around the Company. And we try to screen opportunities on both technical and economic merits and then put the resources both from the operating companies and our technical and support organizations to come up with the right cases.

The U.S. has some good things going for it, but it tends to be pretty pricey, as a lot of this has already been monetized. So sort of a long way of saying we'll continue to look at the opportunities. I don't view it as a particularly large gap today because we've got a growth queue that's going out many years. Paul? Who have I missed? It's so hard to see.

Paul Cheng - *Barclays Capital - Analyst*

Thank you, John. Paul Cheng, Barclays Capital. John, how about in Russia, which is one area that you guys don't really have operation there. One of your competitor have -- did an interesting joint venture with Rosneft by swapping the share as part of the deal that you hopefully will be able to reduce the potential risk associated with that kind of venture. Is that a kind of format that may interest you or how you're looking at Russia as a whole? Thank you.

John Watson - *Chevron Corporation. - Chairman, CEO*

Well, we've had a longstanding presence in Russia primarily through our presence in the Caspian Pipeline. And that's been a significant investment and it's an important transportation corridor for crude coming out of Kazakhstan and for the Russians as well. And we've importantly made a final investment decision to expand that line in anticipation of another development in Kazakhstan.

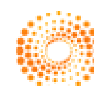
As far as upstream investments in Russia go, we've been very encouraged by some of the dialog that we've had with Rosneft and they seem open to doing business with us. And the status of our relationship is good. The likelihood of us concluding any business there remains to be seen. It's been a tough fiscal environment. There have been some encouraging signs that have come out of the government recently.

I don't think you will see us taking on any sort of share swap. Our approach has been to partner with a number of either IOCs or national oil companies or governments on a case by case basis. Certainly it's advantageous and in most cases required for us to partner with the host government or an NOC. The degree of benefit in those partnerships elsewhere around the world is mixed.

And so our approach has been to partner where it made sense to help develop the opportunity. And I don't think a share swap necessarily facilitates that. So you shouldn't be looking for us to do that. Maybe I'll go to the left side. How about back there?

John Herrlin - *Societe Generale - Analyst*

Thanks. John Herrlin, Societe Generale. Question on Jack/St. Malo in the Gulf of Mexico. George, you said it's going to start out a little bit lower on IP, so how low's low? And with the Lower Tertiary, how expensive are the wells and how much would the frac be in total of the total well cost?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George Kirkland - *Chevron Corporation. - Vice Chairman, EVP - Upstream and Gas*

The low is going to be -- it's about -- at this point in time we're estimating really it's one well to two well difference on startup. And that -- those wells are expected to deliver about 15,000 barrels a day. So it could be 15,000 to 30,000 barrels a day lower at startup than what we had first expected, simply because of drilling being deferred after startup.

I can't really answer the question about the frac side of it. We are -- we will know a lot more about that. One of our first development wells out there we will utilize the single-trip multi-zone frac pack. We've never done it in a deepwater setting, so it will be the first time. The whole goal on it is to be able to do all the fracs at one time instead of running in and out of the hole and setting packers and fracking and moving up the hole.

I'd like to know how well it goes the first time and then understand how much further improvement we would see. It's probably something we'll -- we should know by this time next year our success there. Make sure you have a point, though, that the development of Jack/St. Malo is not dependent on this new frac pack. It's only our view that we can reduce the cost of these completions and improve them through this. And that's what our goal is and that's why we're trying to put one in on the front end stage of it. But it's too early at this point in time to really say.

John Watson - *Chevron Corporation. - Chairman, CEO*

Okay, we've got time for a couple more questions.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thanks, John. Doug Leggate, Merrill Lynch. The -- jumping back to Australia very quickly, you made the comment earlier and George's comment about where the percentage of oil and gas is going. But I just wanted to be clear. This chart on slide 44, should we take that as being representative of how your contracts look? And what is your oil-linked production going to look like when these things are on-stream as opposed to the actual oil and gas mix?

John Watson - *Chevron Corporation. - Chairman, CEO*

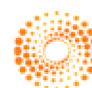
Well, we showed a couple of different charts. We haven't given you the precise slope and contract terms of our contracts. We've given you some third party data there as indicative of where the market is. So we view our contracts as proprietary. But we've said that we are near oil parity on our contracts. I'm sorry, the other part of your question?

Doug Leggate - *BofA Merrill Lynch - Analyst*

The percentage of oil-linked production when the projects come on-line in the future.

John Watson - *Chevron Corporation. - Chairman, CEO*

Well, we showed another chart that showed about some 18 out of the 40% were in oil -- near oil parity. There are other contracts that we have, for example, in Thailand and elsewhere that have a component of their pricing mechanism that has some oil or fuel oil linkage to them. In terms of the precise numbers --



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George Kirkland - *Chevron Corporation. - Vice Chairman, EVP - Upstream and Gas*

I would tell you that predominantly the growth is going to be in oil-linked contracts. The rest of the gas, the growth rate is not huge. It's replacing -- in some cases replacing production that we have anyway. So you're always in this replacement mode in our business. But the growth, you take 400,000 barrels a day that we show on our net position and that would -- that tells you that most of the growth is in oil-linked contracts.

John Watson - *Chevron Corporation. - Chairman, CEO*

All right. Okay, I think we have time for maybe another question or two. Yes, go ahead.

Doug Terreson - *ISI Group - Analyst*

Doug Terreson, ISI. George, you highlighted a variety of different strategic advantages which will position the Company with one of its best opportunities it's had in many years. And while Chevron's record of executions been really positive over time -- I mean it appears to me as if the scale of the opportunity set that you guys have today is unprecedented.

So my question's on delivery, and while you spent a few minutes talking about Gorgon a few minutes ago, my question is how do you manage the execution challenge on the portfolio as a whole while keeping all the different teams focused on the growth and returns objective for the Company in this new environment?

George Kirkland - *Chevron Corporation. - Vice Chairman, EVP - Upstream and Gas*

Well, we -- as an example, when we look at deployment of people and jobs that we need to move people to, we will tell our -- what we have is what we call personnel development centers, if you will. They look at a functional group of people. But we come into that meeting looking at PDC, we tell the people in the room what the priority on all the investments that we're going to make. And we look at base business, we look at the major capital projects, and we go through a process that allocates the people to the highest priority work, the highest value work.

And at the end of the day, if we don't have people to do a job, in other words, if we can't cover appropriately the technical needs on a project or a drilling program, whatever it may be, we don't do it. We also look outside and we make sure that our contractors, who are so important to us in delivering our business, that they have the people, the equipment and the capability to deliver in the location we're going to need the work done.

So we are always balancing capital, people and availability of contractors. And if we have a project that we can't get the right mix on, we'll do it later. We got a big portfolio, we make choices. We always try to do the ones that create the greatest value in a priority order and put the people -- the right -- we have this saying, we only get the right people to the right job at the right time. And we're trying to get those intersects.

John Watson - *Chevron Corporation. - Chairman, CEO*

One last question. You had your hand up for a bit.

Ed Westlake - *Credit Suisse - Analyst*

Yes, I'm actually going to ask two questions, if I may. But the first one, you said a decade of growth and you've given numbers to 2017. But how much, if we think of some of the bigger projects, say Tengiz, Gendalo-Gehem, Wafra, is in that 2017 target so we can understand that kind of longer term growth. That's the first question.

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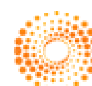

And then the second question, you sort of said that Chevron shares were sort of undervalued, I think was some of the message. But you only give one year CapEx at a time. And CapEx uncertainty is something that hangs on the shares. Are you prepared to give a range, say, for the next couple of years in terms of high/low for CapEx? Thank you.

John Watson - *Chevron Corporation. - Chairman, CEO*

Yes. In terms of the projects that are contributing to that growth, we've got projects that are starting up and there's a ramp-up period that goes with them. And so you'll see, for example, that Gorgon first train comes on in 2014 and there'll be a steady ramp-up, including Train 4 that will take place in that 2017 plus kind of time period.

And so there's a steady ramp-up that takes place over a time period. A project like the steamflood project in the Partitioned Zone, the vast majority of that volume will be post 2017. So it's a mix. I would say Australia LNG will be growing throughout the decade because we'll be putting trains on through 2017 and beyond.

In terms of CapEx guidance, we're going to stick to one year at a time. But that's not to try to signal that there's some big surprise looming in our capital budget. We're prudent about our budget. We manage it to the conditions that we have. We've highlighted that LNG spend will be up a little bit over the next couple of years. But we're going to manage it prudently. And the cost environment will dictate what the absolute level of that -- of that spend will be.

History is a pretty good indicator and we've been prudent as a percentage of cash flow in the spending and we've balanced it well with what we've returned to shareholders in terms of dividend growth and share repurchases.

I think with that I'm going to have to end the program today. I know there's still a few more questions. We'll have a reception in the lobby area just outside this room. We certainly appreciate your interest and ownership in Chevron. Thank you very much for joining us today.

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