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EDITED TRANSCRIPT

CVX - Q1 2014 Chevron Earnings Conference Call

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OVERVIEW:

CVX reported 1Q14 earnings of $4.5b or $2.36 per diluted share.

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PRESENTATION

Operator

Good morning, my name is Jonathan and I will be your conference facilitator today. Welcome to Chevron's first-quarter 2014 earnings conference call.

At this time all participants are in a listen-only mode. After the speaker's remarks there will be a question-and-answer session and instructions will be given at that time.

(Operator Instructions).

As a reminder this conference call is being recorded. I would now like to turn the conference call over to the Vice President and Chief Financial Officer of Chevron Corporation, Ms. Pat Yarrington. Please go ahead.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Okay, thank you Jonathan. Welcome to Chevron's first-quarter earnings conference call and webcast.

On the call with me today is Jeff Gustavson, General Manager for Investor Relations. We'll refer to the slides that are available on Chevron's website.

Before we get started please be reminded that this presentation contains estimates, projections and other forward-looking statements. We ask that you review the cautionary statement on slide 2.

Slide 3 provides an overview of our financial performance. The Company's first-quarter earnings were $4.5 billion, or $2.36 per diluted share. Results are consistent with our earlier guidance where we highlighted specific negative impacts associated with foreign exchange and selected asset impairments and related charges which totaled approximately $500 million for the quarter, or $0.26 per share.

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Return on capital employed for the trailing 12 months was 12%. Our debt ratio at the end of March was approximately 13%.

Turning to slide 4, cash generated from operations was $8.4 billion during the first quarter. Cash capital expenditures were $8.5 billion. At quarter end our cash balances totaled $16.2 billion giving us a net debt position of $6.9 billion.

On slide 5, this week Chevron's Board of Directors declared a $1.07 per share quarterly common dividend payable in mid-June. This represents an 8% annualized payout increase. Since 2004 we have grown the dividend by a compound annual rate in excess of 10% which leads the competitor group.

In the first quarter, we repurchased $1.25 billion of our shares. In the second quarter, we expect to repurchase the same amount.

We are committed to competitive, consistent and growing shareholder distributions. This demonstrates the importance we place on balancing long-term investor return objectives, achieved through reinvestment in the business with near-term return objectives achieved through distributions. It also reflects the strength of our balance sheet, our strong portfolio and our confidence in the cash generation potential of our growth projects.

Turning to the next slide, we've incorporated two new slides into the presentation this quarter which provide year-on-year comparisons consistent with our earnings press release. The first, shown on slide 6, compares current-quarter earnings with the same period last year.

First-quarter 2014 earnings were $4.5 billion, approximately $1.7 billion lower than first-quarter 2013 results. Adverse foreign exchange movements accounted for $325 million, or 20% of the overall decline.

You will recall that foreign exchange movements for us are largely book translation effects with very little cash flow impacts. Upstream earnings were down $1.6 billion. In addition to unfavorable foreign exchange impacts of about $225 million, the deterioration reflected lower crude oil production and liquids realizations and higher tax effects, DD&A and exploration expenses.

Downstream results were essentially flat. And the Other segment reflected the impairment of a mining asset which resulted in an approximate $265 million absolute impact during the quarter and was offset to a large degree by lower corporate expenses.

Turning to slide 7, I will now compare results for the first quarter of 2014 with the fourth quarter of 2013. First-quarter earnings were $418 million lower than fourth-quarter results. Upstream earnings were down $545 million with adverse foreign exchange movements accounting for two-thirds of this decline.

The timing of liftings was a second significant contributor to Upstream's quarter-on-quarter deterioration. Downstream results increased by $320 million with nearly equal improvements noted in the US and the International segments.

The current quarter had favorable impacts from lower operating expenses, stronger Chemicals results and positive foreign exchange movements all of which more than offset the adverse volume effects of a heavier turnaround schedule. The variance in the Other bar largely reflects the impairment of a mining asset partially offset by lower corporate expenses.

Jeff will now take us through the comparisons by segment. Jeff?

Jeff Gustavson - *Chevron Corporation - General Manager, IR*

Thanks, Pat. Turning to slide 8.

Our US Upstream earnings for the first quarter were $109 million higher than fourth-quarter's results. Higher realizations increased earnings by $130 million mainly due to the rise in US natural gas prices. Overall liquids realizations also rose in large part reflecting crude pricing strength on the West Coast.

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Lower production volumes primarily in the Gulf of Mexico reduced earnings by $50 million. The Other bar reflects a number of unrelated items including the absence of year-end LIFO losses and lower exploration expenses partially offset by higher DD&A.

Turning to slide 9. International Upstream earnings were $654 million lower than last quarter's results. Realizations decreased earnings by $50 million, consistent with the decline in Brent prices between quarters.

The timing of liftings across multiple countries decreased earnings by $235 million. Year to date we are approximately 4% under lifted, which as you know, should reverse in the coming quarters.

Lower exploration expenses increased earnings by $190 million mainly driven by fewer exploration well write-offs and overall lower geological and geophysical expenses across multiple locations. An unfavorable swing in foreign currency effects decreased earnings by $355 million. The first quarter had a loss of about $55 million compared to a gain of $300 million in the fourth quarter of last year.

The Tax and Other bar reflects unfavorable tax effects, many of which were non-income related. This quarter's results include several non-operational, items namely impairments, which negatively impacted Upstream segment earnings by about $150 million.

Adjusting for these effects our unit earnings for the quarter would have been approximately $20 per barrel. The reconciliation of non-US GAAP earnings can be found in the appendix of this slide presentation. The Upstream segment was also negatively impacted by FX effects and the timing of liftings, both of which are normally transitory in nature.

Slide 10 summarizes the change in Chevron's worldwide net oil equivalent production between the first-quarter 2014 and the fourth-quarter 2013. Production increased by 12,000 barrels per day between quarters.

Major Capital Projects contributed 21,000 barrels per day related to higher volumes at Angola LNG and the ramp-up associated with the Papa-Terra field offshore Brazil. Shale and Tight resources growth contributed 12,000 barrels per day driven by production increases from the Midland and Delaware Basins in the Permian as well as continued production ramp-up from the Vaca Muerta Shale in Argentina.

The Base Business and Other bar includes the impact of normal field declines and weather-related disruptions primarily due to extremely low temperatures in Kazakhstan, partially offset by lower production downtime related to several assets.

Slide 11 is the second of two new slides incorporated into the presentation this quarter and compares the change in Chevron's worldwide net oil equivalent production between the first quarter 2014 and the first quarter last year. Production was 57,000 barrels per day lower than the same period a year ago.

Growing volumes from our Shale and Tight resources in the Permian and the Marcellus regions in the US and the Vaca Muerta Shale in Argentina increased first-quarter production by 37,000 barrels per day. Major Capital Projects contributed 23,000 barrels per day driven primarily by production growth from Angola LNG and Papa-Terra in Brazil.

Production was impacted by external constraints related to the very cold temperatures in Kazakhstan as well as lower demand in Thailand due to a lightning strike which damaged a customer's gas processing plant in the third quarter of 2013. The Base Business and Other bar includes normal field declines along with other unrelated impacts. Our base decline rate averaged less than 3% between quarters.

Turning to slide 12. US Downstream results increased $157 million between quarters. Planned turnarounds at our Richmond, California and Pascagoula, Mississippi refineries lowered volumes and decreased earnings by $85 million compared to last quarter. More than offsetting these volume effects were benefits from lower OpEx worth $95 million and stronger Chemicals results worth $80 million.

Stronger US Chemicals results reflected higher margins for benzene, olefins and polyolefins from our Chevron Phillips Chemical joint venture. The Other bar reflects a number of unrelated items primarily higher gains on Midstream asset sales, partially offset by modestly lower realized margins particularly on the West Coast reflecting weak seasonal demand.

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Moving to slide 13. International Downstream earnings increased $163 million between quarters. Reduced volumes from turnarounds at our Thailand and South Africa refineries decreased earnings by $75 million during the quarter. Stronger Asia R&M margins improved earnings by $70 million.

Increased demand drove refining crack spreads higher particularly for mogas and fuel oil. In addition, favorable price lag effects improved marketing margins.

Lower operating expenses increased earnings by $85 million about half of which is related to fuel costs. Reduced foreign exchange losses contributed about $70 million to earnings. The first quarter had a loss of $28 million compared to a loss of $96 million in the fourth quarter.

The Other bar includes a number of unrelated items including higher Chemicals results partially offset by the absence of positive year-end LIFO inventory effects recorded in the fourth quarter.

With that, I would now like to turn it back to Pat.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Okay, Jeff, thanks. Turning to slide 14.

We hosted our Security Analyst Meeting in early March where we provided a comprehensive update on the Company's performance, projects and future growth prospects. At that time full information was not available for some of the competitor comparisons. It is available now and the segment return on capital employed updates are shown here.

Our Upstream return on capital employed for 2013 was just over 17%. We have led the direct peer group for three years.

In addition, our returns in 2013 were nearly twice the average returns of the larger E&P group and 3% higher than the very best company in that group. This speaks to the strength of our portfolio and is especially impressive considering our current levels of reinvestment, which we expect will generate peer-leading volume growth going forward.

Our Downstream return on capital employed trended lower in 2013, consistent with the rest of the industry. We delivered a 10% return and held a number two rank in the peer group, our sustained position for the last four years.

Turning to slide 15, and updated information on 2013 Upstream cash margins. During 2013, with a $38 per barrel cash margin, we were the best in the peer group by over $10 per barrel. We continue to post the highest realizations in the peer group.

Our oil-weighted portfolio is providing us with a lasting relative advantage. We are also competitive on operating costs and have made sound investment decisions, both of which support our strong cash margin position.

Over the past four years, the movement in our cash margin relative to the competition has been remarkable as shown on the chart on the left. While we have gained $15 per barrel in cash margin, our peers have gained only $8 on average. Importantly, we expect to maintain or even increase our cash margins going forward.

At our Analyst Meeting, we used a Brent price of $110 per barrel as the basis for our forward cash flow and production projections. We have received a number of questions around the selection of the $110 per barrel price, and I want to be clear that this is not an internal price forecast but is simply the actual average Brent price over the 2011 to 2013 time period. Using prior-years' actual pricing is the same methodology we have applied for several years now in our Analyst Presentations.

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At this historical three-year average Brent price of $110 per barrel our cash margin is expected to increase to over $40 per barrel later this decade. This is a critical part of our value proposition as the combination of strong volume growth and an accretive cash margin is expected to drive significant growth in our cash flow from operations over the next several years.

Turning to slide 16. I'd like to provide a brief progress update on some of our Major Capital Projects and other growth opportunities.

These are laid out across three growth themes -- deep water, primarily in the US Gulf of Mexico; LNG, in particular our two large Australian projects; and Shale and Tight resource areas, most notably the Permian Basin in the US and the Vaca Muerta Shale in Argentina.

Starting with the Deepwater, as noted last month the Jack/St. Malo platform was moored in its final location earlier this year. We continued installation and commissioning activities including final testing of flowlines and export lines.

The project is on budget and is on track for late start-up in the fourth quarter of this year. For Tubular Bells, which is operated by Hess, hook up and commissioning is nearly 40% complete and start-up is expected before year-end.

We also made significant progress at Big Foot during March. The oil export pipeline has been installed and we are preparing to lift the drilling module to the topsides later this month. We expect start-up to occur mid-2015.

Moving on to our LNG projects, we continue to make excellent progress at Gorgon which is now, through April, 80% complete. The final two gas turbine generators have been installed and additional progress has been made on the LNG tank, Jetty and other related infrastructure on the island. All major 2014 milestones are on track, and we expect plant start-up and first gas in mid-2015.

For Wheatstone, we are now at 33% complete. Progress continues to be made at the plant site, on the Wheatstone platform and with the offshore development drilling campaign. Wheatstone remains on track to start-up in late 2016.

Gorgon and Wheatstone are critical contributors to our future growth plans, and we are pleased with the steady progress being made on both of these projects. As in prior quarters we have posted updated photos of both projects on our investor website. I encourage you to take a look.

We also continue to make progress on our Shale and Tight resource development which nicely complement our large Major Capital Projects. We have an active drilling and development program in the Permian Basin, and we have drilled over 120 well so far this year.

We continue to focus on capital and execution efficiency as well as the identification of sweet spots throughout our extensive acreage position in both the Midland and Delaware sub-basins.

We are also making steady progress in the Vaca Muerta Shale in Argentina, progressing this year's development program. And we recently signed additional agreements for incremental exploration acreage in the play.

On slide 17 I'd also like to touch on additional progress made elsewhere. We reached final investment decision and received approval from the UK government to proceed with the development of the Alder Field in the Central North Sea. We achieved first production in the Chirag Oil Project in Azerbaijan and acquired new exploration acreage in Myanmar.

In the Downstream we achieved mechanical completion of our new base oil facility at our Pascagoula, Mississippi refinery. Once fully ramped up, this increases our capacity in premium base oils by over 70%, making Chevron the largest premium base oil producer in the world.

In addition, Chevron Phillips Chemical's 1-Hexene Project as well as Oronite's Singapore Expansion Project recently achieved mechanical completion. Lastly, CPChem started construction on its new Gulf Coast Petrochemicals Project, which capitalizes on advanced feedstocks sourced from shale gas in North America. This project is expected to start up in 2017.

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That concludes our prepared remarks. I appreciate you listening in this morning and your interest in the Company. We are now ready to take some questions.

Please keep in mind that we do have a full queue, so try to limit yourself to one question and to one follow-up, if necessary. We will do our best to get all of your questions answered. Jonathan, I would ask that you open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

Hey, good morning. Pat, thanks for the comments on the impairment as it clearly affects a clean comparison of your quarterly Upstream profitability.

Maybe I missed it, I know your interim update identified $400 million to $500 million of Upstream impairments. In your reconciliation, I see $150 million, and I thought I heard you mention $265 million. Can you just talk me through those numbers once again, please?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Sure. The interim update did talk about a total of $400 million to $500 million in additional negative charges and that included foreign exchange and impairments, but we did reference strongly in that total the mining component.

That mining component is $265 million. And then in the appendix slide, you will see it is also $150 million worth of Upstream-related impairments in the International segment.

Evan Calio - *Morgan Stanley - Analyst*

I see, I got you. I got you on the total. Thanks.

And I guess my second question just on net debt increased, is it $3.2 billion in the quarter, small working capital increase. I know you intend to bridge to 2015 and beyond when productive capital begins to drop and cash flow from new projects commences, yet where do you see the debt limit? Is it at AA level at the high 20s, mid-20s, and then what type of commodity price cushion do you forecast in crossing that bridge and maintaining current shareholder distributions?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Okay, Evan, I think you referenced several questions there, and you had a couple of really important words in there. One, you talked about bridging. That is an important concept for us.

While our free cash flow is essentially neutral in this particular quarter and you are right, the net debt did increase and that related to distributions to shareholders.

We are very comfortable with that pattern. It's a pattern that we've had for the last few quarters. It's a pattern that we can see continuing on here in 2014. When we get into 2015 and you begin to see the volumes and the cash flows pick up, we get into a different state.

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We do want to maintain the AA credit rating. We have a lot of room between where our debt level is today at 13% and what would be necessary to even call that into jeopardy.

And by a lot, I mean several billion dollars worth of additional borrowing capacity. We do test our own plan against a low price environment and I can tell you that against the low price environment, even continuing on with the capital program that we have, we are very comfortable with the distributions that we are making even in a low price environment and maintaining the AA.

Evan Calio - *Morgan Stanley - Analyst*

Can you share what low price means?

Pat Yarrington - *Chevron Corporation - VP & CFO*

No, I don't want to go that far. We do look at the overall capital position and financial position of the firm.

We tested against low prices and we feel comfortable, Evan, with where we are. The other thing I would mention is that we do have, you will recall from the March presentation, we are anticipating asset sale proceeds of $10 billion over the next three years.

Evan Calio - *Morgan Stanley - Analyst*

That's right, right, right. I appreciate it. Thanks for taking my question.

Operator

Ed Westlake, Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

Yes, good morning and thanks for the extra disclosures in the presentation. Just a question on cash flow. I think after working capital you said $8 billion.

It's been running higher than that. Volume is flattish in the macro environment and you've shouted out under-lifts and some extra tax. But were there any other things that may have contributed to a slightly lower cash flow this quarter?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Nothing of any substantial nature. It was not -- with the under lifting circumstance, it was not a particularly strong US Downstream quarter. So I think there are some operational factors that really lead to the $8 billion of cash generation, $8.4 billion.

Ed Westlake - *Credit Suisse - Analyst*

Good, thanks very much. And then Gorgon you've said 80% complete. You've obviously just had the Analyst Day and said mid-2015. Other people, perhaps even partners are saying perhaps more later in the year, sort of a 2016. I don't want to get into a debate, he said she said, but what is the critical path that you think in terms of getting Gorgon up mid-2015, what are the risks that you are now worried about as you get further into the final stages here?

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Pat Yarrington - *Chevron Corporation - VP & CFO*

I think we have 20 of the 21 critical process modules for Train 1 and the infrastructure, the common facilities infrastructure, on the island. The remaining train is due shortly, will arrive shortly.

So it really becomes a process of the hookup and commissioning. And I think that is -- we have just come through kind of a weather period, so we are moving into good weather.

And so I think weather continues to be a risk. And I think labor productivity continues to be a risk. But both of those are aspects of this project that we have been managing now for four and a half, five years.

And so those are clearly on everybody's mind, Ed, in terms of managing through this. And I want to reiterate that the project is on track. We are aiming for and targeting that mid-2015 start-up.

Ed Westlake - *Credit Suisse - Analyst*

Thanks very much.

Operator

Paul Sankey, Wolfe Research.

Paul Sankey - *Wolfe Research - Analyst*

Hi, good morning Jeff and Pat. If I could kind of a big one and a small one.

The big one is, you have an interesting number, Pat, which is unproductive capital. Could you update us on that number and talk a little bit about how you calculate the number so that we can perhaps use it to compare with other companies?

And the follow-up is on the Vaca Muerta, and I will ask you that in due course. Thanks.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Well, basically we just look at, it really is just assets under construction. Definitionally, its assets in our work-in-progress account as a percentage of our total capital employed.

And the information that we provided back in March suggested that we were at a pretty high level because, predominantly because of the LNG projects that we have underway as well as with a couple of Gulf of Mexico Deepwater projects. And we indicated we saw that stepping down significantly over the next three-year period of time. And I also said verbally that we saw a pretty important stair step going from 2013 to 2014 then again to 2015 and 2016.

We didn't give actual numbers, I don't really want to do that. But that pattern that was on our slide back in March is still one that we hold to. So as you see these projects come online they move out of that WIP account, that work-in-progress account, into a producing asset account.

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Paul Sankey - *Wolfe Research - Analyst*

My recollection was that there was an actual number of unproductive capital. And I guess you could update us on capital employed, or at least the last available number?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Well, year-end capital employed was about $171 billion. So the information that we gave on the slide was a three-year average there.

Paul Sankey - *Wolfe Research - Analyst*

Okay, and what was the unproductive number?

Jeff Gustavson - *Chevron Corporation - General Manager, IR*

So, Paul, the three-year average, 2011 to 2013, was in the low 40% range moving down to the mid-30% for 2014 to 2016, but that's the average 2014 through 2016. As Pat said, it steps down in each of those years. Our historic average here is maybe the high 20%s.

Paul Sankey - *Wolfe Research - Analyst*

Yes, that's right, it was percentages, I recall now.

Pat Yarrington - *Chevron Corporation - VP & CFO*

It was percentages. And we use the averages, and I think it's fair to say that 2011 was the lowest of the three years. 2012 was the middle of the three years and 2013 was the highest of the three years. But the three-year average there was that low 40%. And then what we are saying is 2014, 2015 and 2016 will reverse that pattern.

Paul Sankey - *Wolfe Research - Analyst*

Yes. Understood. Okay, that's helpful on that calculation.

And then Vaca Muerta, can you do a little bit more to strip out Argentina? You've kind of bundled it with Permian and to the extent to which that's acquisition growth as opposed to organic growth? Thank you.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Well, so I think that in terms of the Vaca Muerta play itself, we are continuing to make progress there. Our plan is to drill about 140 wells this year. We've got about 17, 18, or 19 rigs drilling at this particular point in time, and production there on a gross basis is about 17,000 barrels a day.

We are encouraged by the well results both on cost and productivity. But it is still early days there, there is still a long way to go but we are encouraged so far.

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Paul Sankey - *Wolfe Research - Analyst*

Okay, I think I'll take it offline on the breakout in terms of volumes year over year. It's just I was saying that on the variance you bundled Vaca with Permian.

Pat Yarrington - *Chevron Corporation - VP & CFO*

I see, I misunderstood the question.

Paul Sankey - *Wolfe Research - Analyst*

No, thanks for the answer, absolutely that was just the follow-up, really.

Jeff Gustavson - *Chevron Corporation - General Manager, IR*

So, year over year, Paul, we hadn't booked production in the first quarter of last year. We started booking production in the fourth quarter.

So there is a contribution fourth quarter to first quarter. But over quarters, it is acquisition related but if you want to talk more specifically about it just talk to me offline.

Paul Sankey - *Wolfe Research - Analyst*

Sure, thanks, Jeff. Okay, thank you.

Operator

Doug Leggate, Bank of America Merrill Lynch.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thanks, good morning Jeff and Pat. I've also got one big and one small one, if that's okay. On the impairments part, is that the reason for the high DD&A number, and if so can you give us an idea what the run rate should be?

Pat Yarrington - *Chevron Corporation - VP & CFO*

It certainly is a contributor to the high DD&A rate. Absolutely that's a factor.

In terms of general DD&A, I think that it's fair to say that overall corporate DD&A is going to move up. Our expectation would be that it would move up in 2014 relative to 2013 and we see Upstream DD&A per barrel rising for the next couple of years but then flattening out over time. The pattern on both the absolute and the per barrel is something that you would absolutely expect because of recent investments and our future investments.

It obviously is also impacted by reserve-add timing and the mix of our projects, etc. Our PPC, our pre-productive capital, as we talked about is going to come down, but I think the thing you've got to keep in mind here too is that for this investment that is evidencing itself and will evidence itself in our DD&A rate, we are giving the investment audience the largest growth rate of the peer group, a 20% growth rate in volumes between now and 2017. So significant investment generating significant volume growth.

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Doug Leggate - *BofA Merrill Lynch - Analyst*

All right, thanks Pat I will take the specifics in DD&A offline with Jeff, if that's Okay. But my follow-up is really your last point because I think the growth in the cash margin trajectory is fairly well understood.

What certainly we have observed over the years is that really gets repaid by the market when it's accompanied by strong debt adjusted growth, if you like, so the balance sheet is not expanding at the same time. So I'm just kind of curious, when you look at your -- you say you're delivering the best 20% growth, how do you think about the trade-off that's a $10 billion annual burn rate on the balance sheet? I'll leave it there, thanks.

Pat Yarrington - *Chevron Corporation - VP & CFO*

I guess I think that if you've got the project queue, a strong project queue, and you have got a balance sheet that allows you to invest for that, and we do have a balance sheet, in fact you could really argue that for years we were under-levered relative to what might be optimal. So if you've got the strong project queue and if you've got the balance sheet to support it and the projects are value accreting for the organization, for the firm, then I think that's exactly the kind of investment profile you ought to be undertaking.

Doug Leggate - *BofA Merrill Lynch - Analyst*

I appreciate your answers. Thanks, Pat.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays Capital - Analyst*

Hey guys, good morning. Pat, don't know whether you want to answer this.

I think a lot of people are asking that for CPC, your joint venture, strategically is there any particular reason you need to own it so that you can have synergy with your other operations? If not, if you look at it as a financial investment does it make sense for you to own a minority interest and put it up as a publicly traded entity together with your partner, Phillips 66 and put it into the market so that you can recognize a much higher value given right now they are trading at higher multiples than say both your partner and yourself?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Yes, so I understand the question there. And I will just start back with when we put the two companies together we had two middling performing chemical companies. We put them together, and it's been a wonderful marriage.

The partners are very much aligned on how to run this business, where to extract value from this business. And so it's a joint venture that has worked very well and has been very successful, so we are very pleased.

There is no catalyst that's out there necessarily to say that we need to be doing something different. It is, a part of the portfolio that has growth opportunities available to it. And we appreciate that with this change in the US gas production and advantaged feedstock opportunities here.

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I think CPChem calls on the technical expertise of both of its parent companies, and we are able to and happy to assist them in that capacity. We think it fits nicely in our portfolio. The chemical business is highly, highly cyclical, more so than our portfolio. And so we are able to withstand the adjustments that are there that we think that's an advantage as well.

So we don't really see that there is a huge catalyst for us to do something different, and it is not always clear that the PE multiple in these petrochemical commodity companies are always trading at multiples better than ours.

So we like the joint venture. We think it's well-run. We are happy to assist in its growth projects providing expertise and technical capability where we can. We are very satisfied with it, and I dare to say that our joint venture partner would be feeling much the same.

Paul Cheng - *Barclays Capital - Analyst*

Okay. Very good. Second question, can you give us a quick update whether Angola LNG right now is running at 50% capacity?

And also in the Permian with the 25 rigs, do you have a number that how many of them is currently running in the unconventional? And what would that be in the pad drilling already? Thank you.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Okay, let me start with Angola and then we might need to help me again on the second question. So, on Angola we did have recently a technical issue pop up. We had a piping failure, which did result in an unplanned interruption to production.

There was no fire. There were no injuries. It was a pretty localized damage. It was associated with the flare system. We are doing a root cause investigation and in fact that root cause analysis should be completed within a few days here, is my understanding.

So the plant is currently shut down and we will need to take a look at that root cause analysis to understand what the go-forward operating plan looks like. That failure occurred sort of mid-April, early April and it therefore was not an impact in the first-quarter results.

Paul Cheng - *Barclays Capital - Analyst*

Permian, the 25 rigs, how many of them is in unconventional drilling and of which how many of them is in the pad drilling already?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Okay, so all of the 25 rigs in the Permian right now are in the unconventional. We have only one rig drilling in the conventional. And I think you're asking about pad drilling?

Paul Cheng - *Barclays Capital - Analyst*

That's correct.

Pat Yarrington - *Chevron Corporation - VP & CFO*

I don't have information on that, that specific at this point, Paul.

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Paul Cheng - *Barclays Capital - Analyst*

Thank you.

Operator

Iain Reid, Bank of Montreal.

Iain Reid - *Bank of Montreal - Analyst*

Yes, hi guys, thanks very much. Pat, sorry about this, but can I get back to the impairments and asset divestments you put in the reconciliation at the back?

I didn't understand some of the stuff you were talking about earlier. You've got $150 million of E&P impairments it looks like in the first quarter and also $100 million gain on dispositions.

I know you've also got this mining write-down as well. Can you just put those together for me again?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Sure. So let's start with the biggest element, which is the mining element. We have a molybdenum mine in New Mexico and the impairment charges that we talked about there and other related charges that I talked to at the very beginning, the $265 million, relates to that. That asset from a segmented reporting basis is in our Other segment.

In Upstream, we noted $150 million of impairment. It's in the International sector for us. So these are assets where we feel there's better opportunity in other portfolios, basically.

And then the third element that was noted there was an asset sale gain. This was in our quote unquote Midstream sector, it's really pipeline related and that showed up in the Downstream external segment.

Iain Reid - *Bank of Montreal - Analyst*

Okay, thanks very much. And the second thing was is it possible to update us on when we are likely to see the Tengiz Future Growth FID?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Our target is to have that towards the end of the year. I don't really have any additional information at this point. We were successful in getting the MOU assigned back in the latter part of last year, which really is the stage-setting document to get all the partners aligned on the go-forward process. And so we are in the process now of going through and working the cost estimates, etc., etc.

All I can say is towards the end of this year.

Iain Reid - *Bank of Montreal - Analyst*

And we should expect an overall CapEx for this -- gross CapEx for this project along the lines of some of your major things you're doing in Australia, is that correct? Or is that kind of ballpark, the right sort of number?

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Pat Yarrington - *Chevron Corporation - VP & CFO*

I'm sorry, TCO is Kazakhstan -- and I guess one last thing there on TCO. FID is not critical path. What was the question on Australia? I didn't quite understand.

Iain Reid - *Bank of Montreal - Analyst*

Sorry, I just wanted to get an overall ballpark idea of what the overall cost estimate of the future growth project is going to be. Is it in the same ballpark as what you are doing in Australia?

Pat Yarrington - *Chevron Corporation - VP & CFO*

I see, Iain. We don't have an update -- we don't have a cost estimate. We won't have a cost estimate until we go to FID, so that will be later and attached to the FID timing.

Iain Reid - *Bank of Montreal - Analyst*

All right, thanks, Pat.

Operator

Faisel Khan, Citigroup.

Faisel Khan - *Citigroup - Analyst*

Thanks, good morning. First question, on Jack/St. Malo you had said that it was moored on location. I just want to understand a little bit; how much sort of wiggle room do you guys have from now until the start-up to get that project going? If it's an active hurricane season, have you built in that sort of weather into the start-up at the end of the year for that project?

Pat Yarrington - *Chevron Corporation - VP & CFO*

It's my understanding that when we are putting these facilities out in the Gulf of Mexico we do as much weatherproofing as we possibly can. Obviously when you are investing at the size of these facilities that is an important consideration. So clearly having it moored is an important step and so our expectation is that we would be able to handle any weather complications that might arise.

Jeff Gustavson - *Chevron Corporation - General Manager, IR*

I like to just add, Faisel, if there are hurricanes, you have to demobilize the folks that are working on it, that could slow things down a little bit but it's hard to estimate what is going to happen there.

Faisel Khan - *Citigroup - Analyst*

I'm just trying to understand if you guys have incorporated that into your guidance of the start up?

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Pat Yarrington - *Chevron Corporation - VP & CFO*

In a general sense, from a planning sense, we always do factor in Gulf of Mexico weather activities to a degree. But each year is a different degree, if you know what I mean? So there's obviously a baseload that we include in our plans, yes.

Faisel Khan - *Citigroup - Analyst*

Okay, that's fair. I understand.

And then just on the under-lift, you guys talked about the sequential quarter-over-quarter change of $235 million. Is that also fair to say that that is the absolute number too?

Jeff Gustavson - *Chevron Corporation - General Manager, IR*

So I will give you the absolute for the quarter is about $100 million, about half of that. So the rest of that is swing between the two quarters, Faisel.

Faisel Khan - *Citigroup - Analyst*

Okay, All right Jeff, thanks I appreciate the detail.

Operator

Pavel Molchanov, Raymond James.

Pavel Molchanov - *Raymond James - Analyst*

Thanks for taking my question. You are obviously talking a lot more proactively about the Permian.

Presumably you'd like to get more value for that asset. Have you considered any kind of financial engineering solution that might unlock that value more so than simply as one piece of your US portfolio?

Pat Yarrington - *Chevron Corporation - VP & CFO*

We think we actually, Pavel, are sitting in the catbird seat in terms of the acreage position that we've got, the long-standing acreage position we've got, the royalty advantage that we have there. We have done joint ventures of a kind with for example, Cimarex, where we have partnered with similarly-situated partners.

And those kinds of things you can see us continuing to do on a go-forward basis if you get commonality of infrastructure and location and you can get efficiencies of drilling where you're fracking can really go from our property to their property. So we will continue to look for those opportunities for synergies.

We've got a very active program scheduled for this year, over 500 wells and 25 rigs. We've done 120 drillings so far.

So the activity level is at or perhaps even a little bit better than planned at this point. So we will continue to look for opportunities like that, but we are proceeding ahead on our own as well.

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Pavel Molchanov - *Raymond James - Analyst*

Okay, and just quickly can I get an update on the exploration program in Liberia. I haven't heard about that in a while.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Yes, we are not in a position to say anything more at this point.

Pavel Molchanov - *Raymond James - Analyst*

Okay, fair enough. Thanks.

Operator

Guy Baber, Simmons & Company.

Guy Baber - *Simmons & Company International - Analyst*

Thank you all for taking my questions. My first one was on the 2014 production guidance but understanding it is still very early in the year, just wanted to get a sense of how confident you guys are in the guidance right now just considering some of the weather influences you've battled in 1Q, the unplanned downtime at Angola LNG and then 2Q and 3Q typically being heavier maintenance quarters. Just wanted to better understand how you guys are feeling about that internally and any cushion you might have built into the guidance?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Okay, that's a good question. I guess I would start by saying the year is young. We've only had four months, or three months in here and there have been some positives.

Jeff mentioned the figure about the Base business decline being at the 3%, or a little bit less than 3% level. So that's a very good positive.

One thing we haven't mentioned that's of a positive nature is at Frade. We now have 10 producing wells on, and we continue to make progress to bring on additional wells there. We've talked about the Permian ramp-ups and the Vaca Muerta ramp-ups that are occurring. So those are all working in our favor.

Clearly weather has been a negative for us in the first quarter. On an absolute basis, we would estimate that was worth 20,000 barrels a day or so absolutely negative in the quarter.

I mentioned the ALNG operational issues that we have there. So you put those all together, you've got some pluses, you've got some minuses. And the back end of the year, we've got Tubular Bells and Jack/St. Malo, both of which are scheduled to come online so our production ramp-ups are kind are back-end loaded. Both of those projects are on track.

So the best I can say is, and I will go back and tell you we build in weather contingencies in our Gulf of Mexico plan in particular, for a baseload amount, I will just go back and say the year is young. We've got positives and negatives out there.

We feel that the guidance that we gave at 2,610 is the best guidance that we have at this particular point in time. And as we do every year on the second quarter, we will update you with how things look at that point in time.

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Guy Baber - *Simmons & Company International - Analyst*

Okay, great. Thanks for that. That was very helpful.

Then my follow-up was on one of your three primary growths themes, the Deepwater. I'm more focused on your next generation of projects looking beyond the near-term start-ups that you have lined up as we start thinking about potential reserve additions and then longer-term growth potential.

But you all have a number of potential FIDs this year that you have an interest in, I think Stampede and then your Indonesia development at Bangka and then you are also reevaluating Rosebank. So understanding that every project is unique, I was just hoping you could provide some more commentary on just how conducive the overall environment right now is to pushing forward Deepwater FIDs, just in light of your view of the cost environment and the evolution of project economics? And what you might see as opportunity for cost savings just given what's generally appears to be a more disciplined approach to screening these projects for you all and with some of your peers?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Okay, well I think I would say, as I step back and look at Deepwater I think for Chevron in the portfolio, you mentioned a number of projects, but I think the most strategic basin continues to be the US Gulf of Mexico. And we've got a number of wells drilling now, and we will have additional wells drilling over the next 12 to 18 months, a significant number of them, six wells in the next 12 to 18 months. So that continues to be an area of strategic focus.

And we think we are competitive there on facility structure as well as drilling costs, completion costs. So that's an important area for us.

If I look at IDD, IDD is a complex project, it's multiple fields. And right now we are in the position of waiting for government approvals. And then on Rosebank, we did, as the operator, put that into a recycle mode because the cost that had come through really didn't make it compete for capital within our portfolio.

So that's somewhat in a recycle mode. So I think the overall impression that you have about the industry stepping back and taking a look at the cost run up in some of these, for some of these resource plays relative to the value capture, I think some of that is being reassessed as you indicate. Rosebank is a good example of that.

Guy Baber - *Simmons & Company International - Analyst*

Okay, thank you.

Operator

Roger Read, Wells Fargo.

Roger Read - *Wells Fargo Securities - Analyst*

Good morning. I guess to come back to the Permian a little bit. If I understood correctly, you are not, or have not to this point drilled any horizontal wells in the Midland Basin, was that accurate?

Pat Yarrington - *Chevron Corporation - VP & CFO*

We are looking to spud the first one later on this year.

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Roger Read - *Wells Fargo Securities - Analyst*

Okay, so thinking about how production from the horizontal wells has typically been a little more let's just say higher IP rates and leave it at that, we should think about the Shale and Tight production accelerating, call it Q4 or certainly into 2015, would that be consistent with how you are looking at things?

Pat Yarrington - *Chevron Corporation - VP & CFO*

I think it would be fair to say that if you go forward and you look at quarter after quarter after quarter improvement, we would be looking to see improvement kind of quarter after quarter. Our real focus has been on getting capital efficiency maximized and getting a strong execution efficiency as well.

So it's really been on optimizing the value creation. And so we have been spending time to understand where the best areas are and what the most efficient rig pad and overall development plan is.

Frankly, a lot of the other producers there have been allowing us to de-risk this play by the work that they have done. And that is in a sense advantageous to us.

And we think that we can get over time the same kind of synergies and efficiencies that the smaller operators have. And one of the slides that we have put out in the Security Analyst Meeting gave a good indication of what we see as year-on-year net production increases in the Permian Basin.

It is a pretty significant growth rate. We also talked to essentially a doubling of our rig count over the next several years from where it is currently.

Roger Read - *Wells Fargo Securities - Analyst*

Right, well I guess we now have a couple of quarters here where you are breaking out Shale and Tight from everything else. So we can start to get a feel for what that quarter-over-quarter and year-over-year performance is, so just want to make sure I was understanding the way it should progress here.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Right, and we are hopeful for a quarter-on-quarter improvement going forward.

Roger Read - *Wells Fargo Securities - Analyst*

Good. Guess my follow-up question, the Angola LNG obviously going to be offline in terms of a volume contribution in the second quarter for some significant period of time. But if you think about, and I know sometimes you don't want to get you granular, but the impact on it from a cash flow standpoint, was this operation, given the troubles it has had so far, actually contributing much, or should we think about it as mostly a production impact but not a problem for cash flows as we look in the next couple of quarters?

Pat Yarrington - *Chevron Corporation - VP & CFO*

I think you will see, it will be more noticeable clearly in the production side than the cash flow side, clearly. And I don't have, as I mentioned, we need to have the root cause analysis done before we have an indication of when, what that repair and maintenance, repair activity will look like, how long that will take and then when we might get back to a producing mode.

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Roger Read - *Wells Fargo Securities - Analyst*

Okay, I will leave it at that. Thank you.

Operator

Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Pat Yarrington for any further remarks.

Pat Yarrington - *Chevron Corporation - VP & CFO*

All right, thank you, Jonathan. I guess we got through everybody's questions, so I appreciate your time and interest today. I especially want to thank all the analysts who on behalf of all the participants for the questions that they asked in this morning's session.

So, Jonathan, I will turn it back to you and thank everybody. Have a good day.

Operator

Thank you. And thank you ladies and gentlemen. This does conclude Chevron's first-quarter 2014 earnings conference call.

You may now disconnect. Good day.

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