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EDITED TRANSCRIPT

CVX - Chevron's 2017 Security Analyst Meeting

EVENT DATE/TIME: MARCH 07, 2017 / 1:30PM GMT

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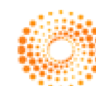

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PRESENTATION

Frank Mount - *Chevron Corporation - General Manager, IR*

Good morning. I am Frank Mount, General Manager of Investor Relations for Chevron. I would like to welcome those of you in the room and those of you joining us by webcast to Chevron's 2017 Security Analyst Meeting.

Before we begin, a few important reminders, first, please take a moment to locate the nearest exit. In the event of an emergency, the hotel staff will provide further instructions. Second, please silence all cell phones and other devices. Finally, remember to take your name badge with you if you leave the room; you will need it in order to reenter.

Today's presentation will begin with a corporate overview by our Chairman and Chief Executive Officer, Mr. John Watson, followed by a review of our Upstream business by our Executive Vice President of Upstream, Jay Johnson. We will end the morning with a Q&A session where John and

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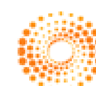

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Jay will be joined by Mike Wirth, Vice Chairman and Executive Vice President of Midstream and Development; Pat Yarrington, Vice President and Chief Financial Officer; and Pierre Breber, Executive Vice President of Downstream and Chemicals.

Before we begin, a reminder that today's presentation contains estimates, projections and other forward-looking statements. Please take a few moments to review the Safe Harbor statement which is available in your booklets and on our website. Thanks for your attention.

I would now like to introduce our Chairman and Chief Executive Officer, Mr. John Watson.

John Watson - *Chevron Corporation - Chairman, CEO*

Thanks, Frank. Good morning and welcome, everyone, to Chevron's 2017 Security Analyst Meeting, including those of you listening via webcast. We are looking forward to providing you with information about our performance, our strategies and the outlook for our business as well as answering your questions.

Let me start with three key messages that I would like to convey today. First, the actions we are taking will enable us to be cash balanced in 2017 and continue growing free cash flow thereafter. We are finishing projects under construction to reduce capital spend and bring on new sources of revenue.

We are further reducing capital spend by focusing our work on activity that is profitable at lower prices and returns cash sooner. We are reducing operating expenses and being more efficient in all that we do. We are completing planned asset sales and we are doing these things while operating safely and reliably.

Second, we are focused on improving project, book and cash returns on investment. This will help as projects are completed and revenue is realized from growing volumes. It will be driven by an emphasis on shorter cycle time, high-return investments in base business and shale developments. And it will be aided by ongoing reductions in operating expenses and improvements in how we manage major capital projects.

Finally, we are focused on unlocking value from our entire portfolio. We are able to take these actions because we have an advantaged, balanced portfolio of opportunities highlighted by legacy assets in Australia, Kazakhstan and the Permian.

Of note, in the Permian, we are ramping up to 20 operated rigs by the end of 2018 and will generate free cash flow there by 2020 at a flat $50 Brent price. We also plan to realize value through swaps or sales of significant acreage. We are evaluating cases that add an additional 10 or more rigs after 2018 and these cases suggest we could see production above 700,000 barrels a day within a decade.

So let's get started with our health, environment and safety performance, the foundation of success in our business. This slide shows our days away from work rate and loss of containment incidents. The latter is a process safety outcome which includes fires, spills and other incidents.

We have leading low industrial injury rates and an excellent record of keeping oil and gas in the tanks, vessels and pipelines where it belongs. Our focus is on preventing high-consequence personal and process safety events.

We work hard to properly identify operating risks in the business and mitigate them, including disciplined validation that those mitigations are functioning as intended. This is a long-term journey and we continue to make good progress.

On the financials, 2016 was a transition year for Chevron and our earnings and cash flow reflected this. Low oil and gas prices depressed upstream revenue and required write-offs of investments no longer economic at lower prices.

Downstream earnings returned to mid-cycle levels from 2015 highs. Recovery in earnings was evident in the second half of the year as prices improved and we took the actions I discussed earlier to reduce costs, limit cash consumption and protect the balance sheet.

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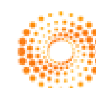

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We closed the year with a debt ratio of 24%, one of the lowest in the industry, and we were able to preserve and grow the dividend, paying out $8 billion in cash distributions.

Despite lower prices, our cash margins continued to be quite competitive, as shown on this chart. Using data from the 10-K oil and gas tables, our upstream cash margins were just under $18 a barrel at $44 Brent.

With the changes in the composition of our portfolio from new projects and divestitures, we expect margin expansion, even at flat prices. And we are leveraged to oil prices through the fiscal terms and oil weighting in our portfolio. So we will benefit from higher prices.

Although down from the highs of 2015, downstream cash margins per barrel remained strong as our refineries operated reliably. In both segments I expect we will continue to be highly competitive within our peer group.

Our financial priorities are clear and consistent. Our number one priority is to maintain and grow the dividend as the pattern of earnings and cash flow permits. We increased the annual per-share cash payout in 2016 for the 29th consecutive year.

Producing oil and gas is a depleting resource business. Over time we must invest in attractive energy projects to provide the earnings and cash flow to pay and increase the dividend.

Our capital spending guidance range is $17 billion to $22 billion per year through 2020. We will maintain a strong balance sheet in this volatile commodity price business. I expect a debt ratio in the 20% to 25% range through 2020 at $50 per-barrel oil. At times, we generate cash surplus to what we feel we can profitably invest, confidently sustain in dividend increases or use to strengthen the balance sheet.

During these periods, we will return cash to shareholders by repurchasing shares. Chevron's total shareholder return outpaced our major competitors and the S&P 500 in 2016. Chevron's TSR is number one relative to our peers for any cumulative holding period going back 25 years.

We appreciate the support from our investors but we recognize markets are forward-looking and expectations are very high. We need to continue to deliver on our commitments and manage our advantaged portfolio for growing cash flow and competitive returns.

We expect to be cash balanced in 2017 at $50 a barrel. This slide shows how we get there, moving from a baseline of $11.8 billion in cash consumption in 2016. Approximately $2 billion is generated moving from $44 to $50 Brent, given our cash flow sensitivity of about $350 million per dollar change in oil prices.

Upstream cash flow from operations will increase from higher volumes and higher per-barrel cash margins. Combined downstream and corporate operating cash flow shouldn't change significantly.

Cash capital spending reductions will contribute over $3 billion, consistent with lower budgeted spend. We made a capital contribution to TCO of $2 billion last year in the form of a loan. We don't expect to make another contribution this year. In fact, we expect TCO will resume paying a dividend in 2017.

We also expect higher proceeds from asset sales than the $2.8 billion generated in 2016. The case for improved cash flow assumes negative timing effects from affiliate dividends, working capital and the realization of income tax benefits.

Collectively, these impacts on cash flow are expected to be less in 2017 than 2016. Finally, we have upside if Brent exceeds $50 a barrel.

This chart shows cash flow improvement will continue into 2018 and beyond at a flat $50 oil price. We expect upstream cash flow from operations to continue to grow as we bring on more high-cash margin barrels. Even at flat prices, you will see both higher volume and higher per-barrel margins.

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At $50 Brent, capital spending will be lower than in 2017 and toward the bottom of our $17 billion to $22 billion range. Asset sales proceeds will decline falling below the levels seen in our most recent years.

At $60 or $70 Brent, free cash flow improves significantly as higher revenue more than offsets incremental spending from an expected increase in the cost of goods and services and a modest bump in activity. And growing free cash flow, of course, increases our capacity for shareholder distributions and balance sheet improvement.

Chart 10 shows we are delivering on our commitment to reduce spend. 2016 capital and exploratory spending was down 34% or nearly $12 billion from 2015 and approximately $4 billion less than our announced plan. Reductions were achieved by finishing major projects under construction, pacing and high-grading future investment and realizing efficiency gains and supplier cost reductions.

We are further reducing spend in 2017 to $19.8 billion, $15.1 billion in cash spending from consolidated companies and $4.7 billion in spend by equity affiliates. This puts 2017 budgeted spend in the middle of our $17 billion to $22 billion guidance range for the period out to 2020.

This year's highlights include $2 billion on Gorgon and Wheatstone, $3 billion on the Wellhead Pressure Management Project and the Future Growth Project in Kazakhstan, $2 billion in the Permian and $2 billion for downstream including the Chevron Phillips Chemical Company expansion and Richmond renewal projects. Again, if we are still in the $50 world, you will see our spend tracking at the bottom end of this range.

Given our asset development plans, and even with routine additions to the portfolio, it is hard to see a case where spending is above the top of this band through the end of this decade.

As we complete an extraordinary period of long-cycle time projects, the strength of our new asset base allows a seamless migration to profitable short-cycle time activity. In fact, as this chart shows, about 75% of our spend is expected to generate cash within two years. The primary exceptions to this are the TCO project and exploration work.

As we have discussed previously, we believe the TCO expansion is a countercyclical investment being done at the right time and on the right asset. It will start up in 2022.

The remainder of our spend will be focused on activity that generates cash within 24 months. We will spend to complete projects under construction like Gorgon, Wheatstone, Mafumeira Sul, Big Foot, Hebron, Clair Ridge, Moho Nord and the CP Chem expansion project that have near-term start up dates.

And we will continue brownfield work such as development drilling from existing deepwater hosts like Jack/St. Malo, Agbami and Tahiti. We have profitable base business work in our conventional upstream and downstream that generates near-term revenue. And, of course, we have the shale and tight investments highlighted by our work in the Permian.

Spending is coming down, but production is going up, and substantially. The bars show volume growth through 2020 with and without asset sales. Growth over the next two years comes from the project startups and ramp ups I just mentioned.

Production before asset sales is depicted in the light blue. 2017 volume is expected to grow 4% to 9% on this basis. Uncertainty in the speed of project startups and ramp ups, price effects on production-sharing contracts and external events, including the timing of restart in the Partitioned Zone, create the range.

2018 growth will continue with the full-year benefits of Wheatstone and other ramp ups. 2019 and 2020 will see some growth, albeit at a more moderate pace, with the second half 2018 start up of Big Foot and volume from our shale and tight investments.

2017 asset sales could reduce this year's production 50,000 to 100,000 barrels a day from the 4% to 9% range. Cumulative asset sales could reduce top line 2020 production by a total of 150,000 to 200,000 barrels a day. We are comfortable that these asset sales are good value decisions.

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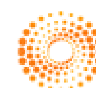

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Volume grows and margin expands. This chart compares our 2016 upstream cash margin with expected 2017 and 2020 cash margins. At $50 flat Brent, the cash margin improves $2 per barrel this year due to lower operating cost barrels coming online, lower margin barrels being divested and ongoing cost efficiencies. By 2020, the margins are expected to increase another $2 to $3 per barrel.

As prices rise, we obviously do even better. For example, at $70 per barrel, which is consistent with the consensus analyst forecast, the after-tax cash margin is expected to grow by more than $7 to $8 per barrel from the flat $50 case in 2020.

We have reset our cost structure. 2016 operating and administrative expenses were down 16%, or almost $5 billion, from 2014. We are lowering costs by improving work processes, negotiating better rates from contractors and vendors and becoming more efficient in all that we do. We have simplified a number of organizations to fit the work that we anticipate. Our employee workforce is down 9,500 since the end of 2014. We expect further reductions in costs in 2017 and beyond despite growing volumes.

Last year we provided guidance of $5 billion to $10 billion in asset sales proceeds for 2016 and 2017 combined. In 2016, we made good progress with $2.8 billion in proceeds. We sold assets for value that were not essential to delivering our strategy, couldn't compete for capital with our current opportunity set and were worth more to others than to us. We expect 2017 proceeds will likely move us towards the upper end of the 2016 to 2017 guidance range.

We generally don't discuss specific assets targeted for sale until we have a transaction. However, there are some assets that were acknowledged in the public domain which we list on the slide. You will see more announcements of those in progress during the coming months.

Our balance sheet is a differentiator and we intend to keep it that way. This chart shows Chevron's historic debt ratio since 1980. Oil price cycles, specific transactions like the mid-80s Gulf acquisition and the recent decision to hold balance sheet capacity during a period of high spend influenced our capital structure over time.

The average debt ratio throughout the period is approximately 25% and today it stands at 24%. We expect a debt ratio in the 20% to 25% range through the rest of the decade at $50 per barrel oil. The flexibility afforded by our short-cycle project queue and the benefit of low-cost debt financing gives us comfort in carrying more debt than we did in the last decade.

I said at the outset that we are focused on generating cash and improving returns. This chart brings these goals together and illustrates how cash from operations grows as a percent of capital employed. The growth in volume, margins and portfolio actions combined to deliver about a 5% improvement in this measure of cash returns at flat $50 Brent. Of course, with higher prices, returns would only grow from this base.

That completes my discussion of our near-term plans to improve performance. Before turning the stage over to Jay to provide more details on upstream, I would like to offer a few broad comments about our portfolio.

First, the downstream. We have a tightly integrated and profitable downstream and chemicals business. It earns good returns and is complementary to our Upstream business by running certain equity feedstocks and providing processing and commercial expertise. These are high-performing businesses where we continue to evaluate opportunities for profitable growth.

Our refining and marketing business operates in integrated value chains in the US and Asia; these are markets we like. We have been shifting our exposure to higher-return segments such as lubricants, additives and petrochemicals. In petrochemicals, we are feedstock advantaged on the Gulf Coast and in the Middle East.

Our upstream portfolio is second to none. We are anchored by three legacy positions: a leading gas position in Australia that is now becoming a significant cash generator with resource development opportunities to keep Chevron and industry plants utilized and growing; a high-quality sour oil and gas position in Kazakhstan built around the giant Tengiz field, which we are now expanding based on technical success demonstrated over the last 20 years; and an emerging and well-recognized resource development opportunity of more than 9 billion barrels in the Permian.

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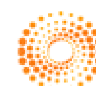

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These three legacy positions are outstanding and, importantly, because they are relatively young assets, they represent future, high-quality, high-return investment opportunities.

Chevron's upstream is built for success near-term but also for the foreseeable future.

Let me now turn it over to Jay to provide more details on the Upstream business. Thanks.

Jay Johnson - *Chevron Corporation - EVP, Upstream*

Thank you, John. Good morning. It is a pleasure to present our upstream story to you today. The photo is a picture of the Wheatstone platform as it prepares for start up later this year. The platform is a gravity base and it sits in 260 feet of water. When it is operational, it will gather and dehydrate 2 billion cubic feet of gas a day before sending it to the Wheatstone LNG facility.

Our goal in the upstream is to provide competitive returns regardless of commodity prices. Across the upstream, we are focused on expanding cash and earnings margins by reducing our operating costs. We are building efficiency into our day-to-day operations; we are increasing the reliability of our facilities and completing major capital projects under construction.

We are also being selective with our capital, favoring shorter-cycle, higher-return investments that build on existing facilities and infrastructure. Assets that can't compete for capital and represent higher value to others are being divested.

We are expanding our cash margins by increasing cash inflows and decreasing cash outflows. As John mentioned, and as the chart on the upper left shows, we expect production growth of 4% to 9% this year before asset sales. We also expect production to continue to increase beyond this year as additional projects come online and as the Permian continues to grow.

The chart on the lower left shows the composition of the change in our upstream cash margin between 2016 and 2017 at a flat $50 oil price. You can see that the combination of our self-help initiatives, startup of higher-value production and divestment of lower-margin barrels increases the proportion of high-cash margin barrels.

We are also reducing our cash outflows. The chart on the upper right shows our upstream capital expenditures which are down over 50% since 2014 as we finished major capital projects, improved efficiency and lowered our costs. For example, in 2016 we delivered our drilling program for about $1 billion less than the same footage would have cost in 2015.

Finally, as shown on the lower right, we have reduced our unit production costs by 30%, a savings of more than $5 a barrel relative to 2014.

The next slide provides information on our resource replenishment. It is important that we continue to economically replace our production with new resources and reserves to sustain our business.

As you can see from the chart on the upper left, we have added 26 billion barrels of resource over the past decade. After accounting for production and asset sales, we have a net increase of nearly 7 billion barrels or 170% replacement ratio.

In 2016, we added 1.4 billion barrels of resource with a unit finding cost of $0.95 a barrel and an exploration success rate of 79%. The graph on the bottom left shows our track record of industry-leading discovery costs over the last decade.

The right side of the chart shows how we are working to improve project execution and delivery. In last year's second-quarter earnings call, I discussed how we have applied these initiatives to the Future Growth Project in Tengiz. They are fundamental to good project execution and we are applying them across our business to new and existing projects. And it is helping to deliver project startups and ramp ups, including those depicted in the map, such as Mafumeira Sul, which started up last month.

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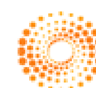

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Turning to our portfolio, we have an advantaged portfolio that is diverse in maturity, geography and asset class. As shown on the chart on the right, we have 68 billion barrels of resource categorized into five asset classes.

Our portfolio is centered around three legacy positions: conventional sour oil and gas in Kazakhstan; Australian gas targeted for LNG; and the Permian shale and tight. The Permian and Australian gas assets are prolific and are just starting long production lives. Tengiz is a more developed asset with a significant resource base that underpins the Future Growth Project. Together, these three legacy positions represent around a third of our resource and, by 2019, will contribute about a third of our worldwide production.

Beyond these legacy positions, we have many high-quality assets. Examples include deepwater assets in the Gulf of Mexico, and Agbami in Nigeria, heavy oil in Southern California and conventional gas in the Gulf of Thailand, each of which generates significant cash and earnings.

Now let's move to Gorgon and Wheatstone. At Gorgon, Trains 1 and 2 are producing about 230,000 oil equivalent barrels a day of LNG and domestic gas. We shipped 22 cargoes of LNG so far this year. We initiated production from the Gorgon field in February and are currently starting up Train 3.

We applied the experience gained during the construction, commissioning and early operation of Train 1 to both Trains 2 and 3. As a result, Train 2 started up and achieved over 90% of nameplate capacity within a week, and it has been performing very well. Train 3 construction and commissioning has gone smoothly and we are expecting first LNG before the end of this month, ahead of our previously announced schedule.

The picture on the right shows the Wheatstone site where Train 1 construction is nearing completion and our focus is on commissioning and startup activities.

Offshore, all well work, flow lines and umbilicals are complete. Work on the offshore platform is progressing as we focus on system commissioning and preparations for start up. Our outlook for startup remains around the middle of this year.

The map on the left shows our leases, gas fields and production facilities in Western Australia. We hold the largest gas resource position in the Carnarvon Basin with around 50 trillion cubic feet of gas and we also have the largest equity ownership of liquefaction infrastructure in Western Australia.

Near-term, our focus is to achieve full utilization of all five trains. We plan to expand capacity by increasing reliability followed by debottlenecking and re-rating of the process trains.

When you combine our large resource base and liquefaction capacity with the transportation cost advantage to Asia that Australia has over the US and Middle East suppliers, we like our position. Over time, we will work this advantage and monetize the gas through our equity facilities at Gorgon, Wheatstone and North West Shelf, as well as through other available third-party capacity.

Let's turn to another legacy asset, Tengiz in Kazakhstan. Tengiz is a world-class asset that we have been actively developing for nearly 25 years. In 2016, we achieved record annual production. Tengiz continues to demonstrate low operating costs and high reliability.

The chart on the lower right shows the production contributions we are expecting from the Wellhead Pressure Management and Future Growth Projects. We are making good progress on both these projects.

In the field, we have two rigs on location drilling multi-well pads. Construction of the port is on schedule, dredging work is ahead of plan and our focus is on ensuring that the port is operational for the first sealift in 2018.

We started fabrication of pipe racks and modules at both the Kazakh and Korean fabrication yards and site infrastructure is well underway. It is early days and the project is on track to deliver first oil in 2022.

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Now let's move to the Permian. We have a superior land position with 2 million acres across the Permian Basin and a net un-risked resource of 9.3 billion barrels, a figure we expect to grow substantially. Of the 2 million acres, 1.5 are associated with shale and tight plays in the Midland and Delaware Basins.

If we multiply our surface area by the presently known benches, we have around 11 million bench acres. We are on path to realize value through a combination of accelerated development and deliberate portfolio actions.

Since last summer, we added a rig about every eight weeks to our operated fleet. We are currently standing up our eleventh rig and our plan is to continue to add rigs at this pace, achieving 20 operated rigs by the end of 2018. We expect to generate free cash flow after C&E in 2020 at $50 oil.

We are also evaluating cases where we continue to add rigs beyond 2018 and have several scenarios that would grow production to more than 700,000 barrels of oil equivalent per day within the next 10 years.

In addition to evaluating a range of production growth scenarios, we are also planning to swap, lease or sell between 150,000 and 200,000 acres to develop more efficient developments and monetize assets that don't compete for funding.

The next slide shows our performance relative to our competitors. We have made significant progress improving the capital and operating cost efficiency of Permian Shale investments. As shown on the graph in the upper left, in 2016 we delivered a 30% reduction in our actual operated unit development and production costs and are competitive with our actual, non-operated joint venture partner costs, and they are some of the best operators in the Basin.

With respect to recovery, we are increasing lateral lengths and continuing to evolve our basis of design. The graph on the lower left compares our actual 2016 average cumulative production from 26 Midland wells with the range of 68 competitor wells on the same basis.

The chart on the right compares projected production from our new basis of design with production from our competitors' latest designs. Our Permian recoveries per foot have grown between 30% and 40% since 2015 and are expected to increase another 30% to 50% in 2017. So, we are competitive on cost, we are competitive on recoveries and we are getting better every day.

With advanced planning and our ability to leverage our global scale, we have secured the crews and materials necessary to execute our program. We source tubulars directly from a global supplier that maintains inventories and provides the pipe at globally sourced prices.

Our rigs have staggered contract durations and competitive rates and we've secured key services with a variety of indexed or performance-based contracts. We took advantage of the recent market downturn to secure pipeline capacity as well as NGL and gas processing and offtake at desirable rates.

We have access to multiple market centers to capture the highest realizations and we have contracted capacity with options for expansion to support the majority of planned levels of production through the end of this decade.

The chart you see on the left is our updated production outlook for the Permian, reflecting our base case of 20 operated and 15 non-operated rigs by 2018. Our current production forecast through 2020 is between 325,000 and 450,000 barrels a day, representing a compounded annual growth rate of 20% to 35%, significantly higher than last year's view as indicated by the dashed lines.

To be clear, we are aggressively incorporating the learnings from this increasingly prolific asset into our forward plans and we will also continue to be disciplined in our approach to ensure we deliver full value. Our objective in the Permian is to be fully competitive on an operational and offtake basis and then use our superior royalty position to generate leading financial performance.

And remember, this represents our base case. With continued strong performance, we have options for even faster growth by continuing to grow our rig fleet.

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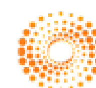

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Until now, I've focused on our legacy positions; but a critical contributor to our portfolio is our base business, which is made up of diverse assets that are already on production.

Investments in our base projects typically have shorter cycle times and build on existing assets and infrastructure. Because these brownfield projects leverage previous investments, they typically deliver relatively high-return, low-risk outcomes frequently returning cost of capital at oil prices less than $40 a barrel on a flat nominal basis. These are competitive with the best of the shales.

In 2017, we plan to spend $8.5 billion of capital on our base and shale and tight assets, which is expected to mitigate the decline of these assets to 2% to 3%. When you add in our project startups, our total production is expected to grow between 4% and 9% before asset sales.

By the end of the decade, after we've brought on new assets and grown the Permian, we expect the new base plus shale to grow about 1%. We are renewing our base with assets such as Gorgon and Wheatstone, which present ongoing opportunities for new brownfield investments.

Now let's talk about the front end of our pipeline. Highlighted on the map are areas that represent the three largest resources for each asset class. As you can see, all asset classes are represented in a variety of locations. Much of our resource base is held by production resulting in relatively low holding cost.

We are using technology and best practice to unlock resources, lower unit development costs and ensure that new developments are competitive for capital. Beyond our discovered resources, we plan to invest approximately $1 billion in exploration activities in 2017 and drill more than 14 exploration and appraisal wells.

In closing, we are working our existing assets hard to grow earnings and cash margins and maximize our returns. We are improving our project execution and running our base businesses with high reliability and efficiency. We have a deep, diverse portfolio built around three legacy positions supported by a strong base business with ongoing brownfield opportunities. We are constantly reviewing our portfolio and asset allocation to develop our best opportunities and at a pace that we can execute with excellence.

As John said, Chevron's Upstream business is built for success in the near-term and also for the foreseeable future. Now I would like to turn it back over to John.

John Watson - *Chevron Corporation - Chairman, CEO*

Thanks, Jay. That brings us back to the slide I showed earlier with our key messages, which I will briefly repeat. We are taking actions that will enable us to be cash balanced in 2017 and continue to grow free cash flow thereafter. We are focused on improving project, book and cash returns on investments.

Finally, we are able to take these actions because we have an advantaged, balanced portfolio of opportunities highlighted by legacy assets in Australia, Kazakhstan and the Permian.

That concludes our prepared presentations. Now I will ask Pat, Pierre and Mike to join us on the stage and the five of us will be delighted to take your questions.

QUESTIONS AND ANSWERS

Doug Terreson - *Evercore ISI - Analyst*

Doug Terreson, Evercore ISI. John, your strategy, or a strategy of improved focus on returns on capital has historically been the pathway to better valuation and equity market performance versus your peers and S&P 500, so congratulations on slide 7.

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However, when you consider that your peers have only generated about a quarter of the performance of S&P 500 during the past decade, it reasons that you might include some alternative performance measures in the mix.

So three questions. First, how do you think about this issue? Second, why not make a market index like S&P 500 more prominent in your performance measurement? And do you think that there is a correct balance between peers and S&P 500 to ensure that you stay on top from a performance perspective?

John Watson - *Chevron Corporation - Chairman, CEO*

I think the market looks at a family of measures in deciding how they are going to reward you in the marketplace. For example, our TSR has outperformed all of our competitors. And though we haven't always had the highest ROCE, we have outperformed for 25 years.

I think the market looks backward to look at your sustained performance, but it also looks at what they see coming forward and we have a good story to tell. In fact, if you look at the charts that we show, we typically will show you TSR relative to our major peers, but we will also show relative to the S&P 500.

Depending on what your start period is, we have done well versus the S&P.

If you start those calculations vs. the S&P 500 after the recovery from the great financial crisis but before the drop in oil prices, the comparison isn't as good. But we do look at the S&P because we know we have to compete for capital and, in fact, we recently changed our comp system to include the S&P 500 in the relative TSR measure. So it is now a part of our comp system, and is one of the competitor metrics now, not just a comparison to the big integrated companies.

So I think it is a family of measures, Doug, and we are focused on improving returns despite the low price environment that we are in. Thank you.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thanks, John. Doug Leggate from Bank of America. Two quick ones, if I may. First of all, your decision to hold on to higher level of debt going forward, what does that mean for the priority for the incremental use of free cash in terms of buybacks and reinvestment and so on?

And my second one is, as you look at the portfolio mix, I think, Jay, you mentioned that by the end of the decade shale plus base grows at 1%. What is the maintenance capital or the capital that goes along with that number?

John Watson - *Chevron Corporation - Chairman, CEO*

Okay, I will take the first one and let Jay take the second one. First, when it comes to priority and use of capital, we try to be pretty clear. We like dividends; we understand that you like dividends. So as we generate free cash flow, we do favor increasing the dividend. And the qualifier we put on it is, as the pattern of earnings and cash flow permits, because we don't distribute everything.

I would never knowingly increase the dividend if I didn't think I could sustain it in perpetuity. So we are thoughtful about when we increase the dividend, when we propose one and when the Board agrees.

We do need to keep a strong balance sheet. We want to have access to the capital markets. Now I was pretty specific on some of the numbers we gave you. We gave you an unconditional range for capital spending, which is regardless of price; it was $17 billion to $22 billion.

The debt ratio range was really at $50 and said that we are going to generate some free cash flow at $50, but we are going to need to keep the debt ratio in a reasonable range. If you have other questions about debt ratio, we can let Pat talk more about our interaction with the rating agencies. But we do want to keep the debt ratio in a reasonable range so that we can have the access to the capital markets.

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And then beyond that, if we are generating free cash flow, we have shown a willingness to return cash to shareholders through share repurchases. And we've modeled a lot of scenarios, as you might have imagined, and what I would say is there is room for some of everything. There is room to nicely increase the dividend; there is room for a little bit more spending.

We are rationing ourselves pretty hard right now on capital and there is the current outlook of short-cycle spend and there is a range on the total amount of capital. And then if there is surplus, if things are better than we think, and we may not want to put all of it to a dividend, we certainly can return some of that cash either to the balance sheet or to our shareholders.

Jay Johnson - *Chevron Corporation - EVP, Upstream*

Maintenance capital, so in 2017, as we said, it is about $8.5 billion going into our base. The composition of the base is going to be changing over time as these new projects come in, so essentially out of those five asset classes, you will see the LNG and the Permian shale and tight take bigger roles in our base. We will see that at the expense of mainly the conventional areas; heavy oil and deepwater should stay relatively constant.

So we don't have the base number that we are going to release at this point that far out, but what I would say is, we see a fairly consistent level of spend in that base, possibly increasing just a little bit as we bring some of these new projects in.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Just for clarification, so you said $8.5 billion gets you your base and shale combination decline, but the base and shale grows at 1%. What is the capital number that goes along with that?

Jay Johnson - *Chevron Corporation - EVP, Upstream*

I didn't hear the end of the question.

Doug Leggate - *BofA Merrill Lynch - Analyst*

What is the capital number -- so it's $8.5 billion this year, so in 2020, what is the capital number?

John Watson - *Chevron Corporation - Chairman, CEO*

It will be higher. We are not going to give you a specific number but it will be higher. If we are ramping up the Permian, as we described, we are spending $2 billion this year, we will be spending more in the Permian, for example. And there will also be some money that will be going to capital projects during that period.

Certainly we have got the ongoing spending at Tengiz and we may choose to initiate a project or two that we talked about that is in our queue. Jason?

Jason Gammel - *Jefferies - Analyst*

Thanks, John. It is Jason Gammel with Jefferies. If I could ask one on the upstream and one on the downstream, please. First, on the upstream, the rate of growth in the Permian production is obviously pretty impressive, but even contrasting 700,000 barrels a day with 9.5 billion in resource, it is probably going to continue going up.

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How do you think about developing this resource in an efficient, free cash flow generative basis, yet relative to the size of the resource, it is extending out 30, 40 years and maybe ways of pulling that NPV forward?

Second question on the downstream is several of your European competitors have been emphasizing a move into marketing as a relatively stable way of generating earnings and cash flow; that is business that you have kind of scaled back in relative to peers. So how do you think about marketing as it relates to the downstream?

John Watson - *Chevron Corporation - Chairman, CEO*

You mean retail products marketing?

Jason Gammel - *Jefferies - Analyst*

Yes, retail products and, I suppose, really just moving from the refinery through the logistics chain.

John Watson - *Chevron Corporation - Chairman, CEO*

Okay. We will let Pierre handle that one and Jay handle the first one.

Jay Johnson - *Chevron Corporation - EVP, Upstream*

So on the Permian, it is a great resource opportunity and the more we learn about it, the more prolific it looks. We have a team set up now to look at, as I said, about 150,000 to 200,000 acres, which we consider to be in that non-core area around the periphery or stranded or isolated leases that we want to try and move forward so that we can release some of the value that is in those. So we are working on that to begin with.

Because of our ownership position, we are actually in a great spot because our first value measure is to try and core up areas that we want to do developments to increase and get longer laterals. But, because we own the royalty, we also have the option to lease out land to others that are ready to move forward or we can go into joint ventures with them. So we have lots of opportunities to release value out of this acreage if not outright sell some of it.

At the same time, as we look at building our rig fleet. One of the reasons we are being measured and doing it every eight weeks, which is still aggressive, is that it allows us to ensure that the supply chain on the front end is aligned -- everything from developing the rig queue and the well queues and the well designs right through to the provision of all the goods and services, as well as the offtake on the back side.

So we've put all that in place now for the tranches that we have shown you. But as we'd want to continue to grow, we need to make sure that we continue to expand the organization to support that and we want to make sure we are doing it in an efficient manner.

We monitor our actual performance on an ongoing basis, so we have that flexibility to make adjustments to ensure that we are getting the returns that we are looking for as we progress these developments. As we look forward, we have got plans in place today to move value forward in time, but we also have this huge resource to unlock. And as we expand this rig fleet, we start going through hundreds of wells a year and pretty substantial development. So I think it is going to be a good base for us.

Pierre Breber - *Chevron Corporation - EVP, Downstream and Chemicals*

Yes, John showed the chart that has our three fuels value chain. So we really look at the business on an integrated basis, we are managing from the refinery through the retail or the marketing, and we are not really focused on where we make the money. We have got the teams organized and the scorecards organized to optimize value across the value chain.

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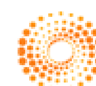

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So right now, I would say retail margins are strong and refining is a bit weaker, but that can ebb and flow, and so our focus is really on making sure that we work the margin across the whole value chain. If it shows up in retail, that is fine. If it is on refining, that is also fine. And we are pretty balanced, so really the way we are setting up is, our refinery production goes through our retail network.

Paul Sankey - *Wolfe Research - Analyst*

Thanks, John. Paul Sankey at Wolfe Research. You have upgraded your volume outlook for the Permian and you know -- I think you've said a $50 breakeven, $50 oil by 2020. So you are at a sort of 20%-plus CAGR. All these numbers are very impressive, but those are actually somewhat behind the leading edge of the industry. And even if we look at your charts, we can see on slide 10 that actually your performance is kind of in line with average.

We know that your acreage is, I think, good to better than others. Can you talk a little bit about what it is to be a super major versus these E&Ps? Do you have higher costs in terms of safety? Are you putting in more money up front in infrastructure? What is it to be your business model versus these guys' business model? What are the advantages and disadvantages, because I would say you are a little bit kind of late to the play? I wonder how you are going to catch up and exceed performance. Thanks.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes, actually the purpose in us showing you some of those numbers is to show that we are competitive on costs. So we have adopted a strategy of taking best practices and incorporating them. I will give you an example. I mentioned in the fourth quarter call that we added 500 million barrels of resources spending nothing by watching what offset operators do.

So one of the reasons we have the low finding and development costs is because we are moving in a fast-follower fashion. Now that doesn't mean that we don't have proprietary technology that we are applying to our business; we have it and are applying it. And we are not cherry picking data; we are giving you actual data that is there and so we are competitive. That was really, I think, the point that Jay was trying to make.

In terms of growth, there are a lot of big numbers that are out there in terms of ultimate recovery in production rates or growth rates and we have got a range around our growth rate. I think 20% to 35% growth is as good as anybody. And we are not starting from zero; we are starting at 140-something thousand barrels a day now.

So I think we are competitive. Maybe it is a bit flippant, but we invented factory drilling. If you look at what we do in the Gulf of Thailand, if you look at high intensity drilling that we have done elsewhere, such as Bakersfield in California, we actually know how to do this, but I wouldn't represent that we are necessarily trying to grow at the fastest rate. We are really focused, as Jay said, on growing at a reasonable rate but being sure that we get good returns on what we are investing in.

Paul Sankey - *Wolfe Research - Analyst*

Thanks, John.

Jay Johnson - *Chevron Corporation - EVP, Upstream*

Maybe just one other add to that is, I do think one particular advantage we can bring is our global reach on supply chain. So as I mentioned on the tubulars, we are coming direct from a mill. They are handling our inventories so we don't have that sitting on our books, and we use global pricing, which is outside of any immediate region that may see other kinds of pressures.

When we deal with a lot of these contractors, these are the same big contractors we deal with worldwide. They are going to want to preserve a relationship with us worldwide over and above what is happening in a specific region.

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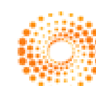

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Paul Sankey - *Wolfe Research - Analyst*

Thanks, guys. And then the follow-up is I thought of you as having really four legacy areas. The missing one for me now is the deepwater, it is not that long ago that it would have been one of your highlights areas. You have raised your Permian guidance. Are we really knocking out the deepwater with the Permian, to put it simply?

John Watson - *Chevron Corporation - Chairman, CEO*

No, I will let Jay talk a little bit about where we are in the deepwater.

Jay Johnson - *Chevron Corporation - EVP, Upstream*

So I would say that the deepwater is still a critical area for us and really important. It is just that in terms of any one single asset that represents one of these legacy positions, it is not really there. So for the deepwater -- you saw the resource position, but that resource position for deepwater is actually bigger than what's shown because a number of our assets sit in multiple asset classes.

A good example would be Jansz and Gorgon, which are technically deepwater developments; it is just that they provide LNG, so we put them in the LNG bucket. So the technology and the skills that we have around deepwater are critically important. We are bringing our development costs down for new deepwater developments. We expect to see them very competitive. I think deepwater is going to still represent a good place for a new resource and new developments as we drive those costs down and use our expertise.

Our deepwater drilling costs went down 30%. Our rate of penetrations are up both on the exploration and the development drilling side. All of those things are coming together to really make deepwater, I think, competitive as we move forward.

Ed Westlake - *Credit Suisse - Analyst*

Ed Westlake, Credit Suisse. Two, I guess, financial questions. Firstly, disposals. I think Jay spoke of coring up 150,000 to 200,000 acres or something in the Midland. You obviously have that chart showing as you go out there is a cumulative 150,000 to 200,000 barrels a day of disposals, presumably lower margin.

But you have got that $5 billion to $10 billion range; presumably disposals don't just stop at 2017. Maybe some sort of color as to the medium-term contribution to free cash flow from disposals is my first question.

And then the second question is around the dividend. It is attractive against the S&P. Obviously, within the majors asset class, there are higher dividends that are out there. Maybe some sort of color as to what the plans are to grow it? Thank you.

John Watson - *Chevron Corporation - Chairman, CEO*

Pat, you want to try that one?

Pat Yarrington - *Chevron Corporation - VP, CFO*

On the dividend?

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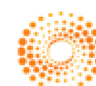

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John Watson - *Chevron Corporation - Chairman, CEO*

Sure.

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes, absolutely. I would love to talk about the dividend. It is our number one priority. We are in the position of getting cash balanced with asset sales this year. I think your initial question talked about cascading asset sales. We do see perhaps some contribution in the outer years, but our intention is to get cash neutral this year with asset sales and be cash neutral without asset sales -- living within our means -- in 2018 and 2019.

We do intend to grow the dividend over time, as John said, as earnings and cash flow permits. We are structured to try to be able to do that with proper investment.

You mentioned that we are, from a cash yield standpoint, a dividend yield standpoint, perhaps not as competitive as all of the (other competitors). I would say on a cash basis, we certainly are competitive with the peer group and it is something that we watch and monitor very extensively. We want to grow the dividend. We want to build a foundational business that allows us to sustain and grow the dividend over time.

John Watson - *Chevron Corporation - Chairman, CEO*

Asset sales, they've averaged $2 billion to $3 billion over the years, so there is always going to be some background level of sales. We are going through a period now where it is a little bit heavier both with the rationalization that we have done in the midstream and downstream over the past few years and then some of the ones that are currently in the queue, but there is always some background level. It's a little difficult to predict.

Ryan Todd - *Deutsche Bank Research - Analyst*

Thanks. Ryan Todd at Deutsche Bank. Maybe if I could ask a couple. One, in the Permian, what are the constraints on your ability to deploy capital in the Permian over the next 3 to 5 years? Is it predominantly top-level cash flow or is it field-level logistical constraints? So how do you think about limits on your ability to deploy capital there?

And then maybe as a follow-up, CapEx is overwhelmingly pouring into US shale and particularly to the Permian Basin. We saw one of your peers last week talked about a pretty aggressive ramp there in the Permian as well, certainly the US E&Ps. How do you think about the risk of inflation and constraints going forward like we saw in the oil sands 10 years ago, or in Australia in LNG 5 years ago, and the risks of that versus opportunities elsewhere in the portfolio in less inflationary regions, I guess?

Jay Johnson - *Chevron Corporation - EVP, Upstream*

On the cost side, first of all, for our current level of activities, we have got contracts in place, so we are pretty well fixed. Now some of those contracts use indexes so that we can remain competitive as prices change. Others are fixed term or staggered durations. We also have performance-based contracts. So we have got a variety of different forms that we use depending on the nature of the service of the goods and materials coming in.

As I said, we also have the global reach because a lot of the people we are working with in the Permian are our partners on a global basis. We are using competitive pricing and we have not seen any kind of cost inflation, outside of that immediate area in the Permian in the world. So we are able to really use that to leverage our position.

There may well be some pressure going forward, but we are well-positioned both through our contracts we have in place and the leverage that we have as well as the gains in efficiency and performance we continue to see, to stay focused on our returns in the Permian.

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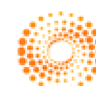

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I think the other advantage -- when you look at something like what happened in Australia -- that is where you are committing to build large, massive plants with big investments. Once you start that program, you are very committed, whereas the Permian is very flexible. You are moving developments, you can move them in and out; you can slide them.

And particularly, Chevron, because of our land position, we have the ultimate flexibility in terms of when we drill these. We are not driven by drill or drop contracts. So we feel we have good mitigations in place, but we also feel that we have got a good land position that lets us be adaptive and stay focused on generating the highest returns.

John Watson - *Chevron Corporation - Chairman, CEO*

Just an observation, a follow-up, if you look at what happened up in the oil sands area or in Australia, those are pretty remote areas. The Permian Basin is oil country central, and I don't think you would call it as remote an area. And so I think you are likely to see an influx of goods and services and people, if things get better.

But to the extent that costs rise, we have got a lot of options in our portfolio, and that is part of the reason we show some ranges around these numbers because you are just not sure how the market might behave.

Paul Cheng - *Barclays - Analyst*

Thank you, John. Paul Cheng, Barclays. Two questions actually. First is on the balance sheet. John, if we looked at the majors such as you guys, the business model in the sense is that throughout the entire cycle, at the better half of the cycle, you are never going to grow as fast as some of your smaller peers, but at the bottom of the cycle, you are more sustainable.

And perhaps that can even take the opportunity of the down cycle to enhance your return by either acquiring some assets on the cheap, you did it in the past, or to get a better negotiation with the government.

So from that standpoint, with the introduction of the shale oil, you can argue that the volatility may be even higher. Should you even target just historically at 20%, 25% on the debt ratio; instead should you be targeting a much lower so that when you see that volatility, you can actually take opportunity? So that is the first question. Can I go with the second one or you want to answer this one?

John Watson - *Chevron Corporation - Chairman, CEO*

Why don't we go one at a time? I am going to give an answer that my Chief Financial Officer will like and that is that we have the flexibility to reduce debt further depending upon how much free cash flow we are generating. The point we are trying to make is, with short-cycle spend and with a very low cost of debt, it is prudent to carry a little bit more debt than previously.

But Pat works very closely with the rating agencies and we want to be sure that we maintain access to capital. The inference of what you say is also that we should be doing acquisitions or things of that sort and, as I have told you and others many times before, we are always out there looking for resource. We just picked up an attractive block in Mexico, for example. And we are looking to add to our position over time, but we want to do so on terms that work for us.

Right now we have got a lot to chew on in our portfolio and we don't necessarily see assets as being undervalued when we look at opportunities. I also expect host governments to be responsive over time. We have resource in many areas and, in some cases we weren't able to conduct activity economically at lower prices. So I also hope in due course we will see better terms and conditions in place.

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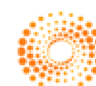

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Paul Cheng - *Barclays - Analyst*

The second question is on the -- if you are looking at your organizational capability limit and also the resource, is there a sweet spot long term what maybe the production growth rate should be? And within that, how big a portion is the Deepwater going to be? And in your current base plan, what kind of inflation factor that you have built in? Thank you.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes, we have gone through a period, Paul, where we have seen pretty high growth rates that I think I have advertised for several years, aren't sustainable. And it was because we had two LNG projects that had to move at about the same time and some deepwater developments that had to move at the same time, in part, because of the moratorium. So we did stack up projects and we are now seeing some of that volume growth come about.

Over time, we think you need to sustain the business in some reasonable fashion, but we are not necessarily targeting a specific growth rate, particularly when you look out 5 to 7 years. We are always going to give you a range.

We are really focusing on improving returns in the business. We put a lot of capital in the business and we need to focus on getting the most out of it. Whether it is through the base business and shorter-cycle spend with higher returns, or through some of the incremental work that we can do to debottleneck and re-rate facilities that Jay referenced in Australia; we're focused on getting the most out of the asset base that we have, so that we can improve returns on those three bases that I described earlier: cash, book and project returns.

Sam Margolin - *Cowen and Company - Analyst*

Sam Margolin at Cowen and Company. You have got a number of pretty productive assets moving into cash flow positive territory this year and you mentioned TCO is actually going to be contributing cash even in the middle of a capital project. So it does seem inevitable that with all these assets starting to throw off cash that maybe the Company within the next half decade or decade reenters a phase where there is a lot of growth in the outer years forecast.

Assuming you don't reject that premise outright, I guess within that context, what do you think about the opportunities for post-decade from a resource standpoint? Do you have a preference for gas to oil? Are you looking to integrate potentially some gas assets with a chemical piece that has a higher sort of structural demand piece? I guess what -- as you enter this kind of free cash phase, what do you think the biggest opportunities are for the outer years?

John Watson - *Chevron Corporation - Chairman, CEO*

Well, at a high level, demand for our product is likely to continue to grow. You can debate about how much, but under almost any scenario, that the IEA and others postulate, we expect to see continued growth and I imagine we will capture our fair share of those opportunities. There are a lot of assets in our portfolio that we haven't even talked about.

We haven't even talked about our Marcellus position because we have got weak gas prices right now. We haven't talked about our positions in a number of international jurisdictions where there is opportunity to grow. So the answer to the question is, yes, I think there will be opportunities to grow.

What I have tried to characterize is that we are not likely to be in a phase like you saw the last seven years. That was fairly unusual and I don't think it is likely you'll see that. But we have the shale position that I have said before could be 25% of production in a decade, plus production from the other assets that we have got, such as Tengiz which goes on beyond this period.

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I would like to just clarify one comment that you made. This year we expect Tengiz will contribute cash net of spending. On a go-forward basis, it is very profitable; it generates cash, but there will be co-lending that will likely be required during that period, so there will be dividends and co-lending through the life of this project. Remember, our share is roughly $3 billion a year out through 2021.

Phil Gresh - *JPMorgan - Analyst*

Thanks. Phil Gresh, JPMorgan. I just wanted to follow up on the -- slide 8, the cash flow after dividends. Pat, you had mentioned that you expect to get to a $50 breakeven, I think you said, by 2018 without asset sales. And, John, you had made some comments about some transitional nature obviously in 2016, but also in 2017; you talked about affiliate spend, working capital and other factors. So I was wondering if you could elaborate a bit on what those -- maybe quantify some of those factors for 2017 just to give us some additional comfort that you can get there in 2018 at $50 without asset sales?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes, I think the components you are talking about are some of the negative headwinds that we have had certainly through 2015, more extensively in 2016, and there will be some in 2017. Probably the biggest element of those relates to deferred taxes, and that is a circumstance where -- they are generated really in two different mechanisms.

One, is as you come off of a high investment period of time into a lower investment period of time you were capturing less as accelerated tax depreciation versus book, and so you have got a headwind associated with that. But then, secondly, and more importantly, more recently we've had circumstances in certain jurisdictions where we have been in a net operating loss position.

And in those circumstances, in some jurisdictions you can carry that money back against prior tax returns. In other circumstances, you can carry it forward. In 2017, I know there will be some relief that we will get where we can carry losses back against prior tax returns. It is not a huge number, but there is a few hundred million dollars there.

More generally, if you posit a $50 flat case, we are not going to be able to reverse those headwinds on a deferred tax basis. So, in the aggregate, if I think about deferred taxes and I think about working capital and I think about the difference between equity income and equity distributions from affiliates, it is probably a penalty, not the same size as John said as we had in 2016, which was almost $5.5 billion to $6 billion, but something on the order of $4 billion-plus would be our expectation.

John Watson - *Chevron Corporation - Chairman, CEO*

It is very sensitive to price.

Pat Yarrington - *Chevron Corporation - VP, CFO*

It is very sensitive to price. As you move from $50 to $60 to $70 then some of that recapture occurs.

Phil Gresh - *JPMorgan - Analyst*

Got it. So in 2018 at $50, you would still have some headwinds, but not as much as 2017?

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Pat Yarrington - *Chevron Corporation - VP, CFO*

Exactly. And I think if you go back and you look at 2015, we had average Brent prices of around $52. Our case here is at $50 flat; in 2015, we incurred on a deferred tax basis about $2 billion worth of penalty.

John Watson - *Chevron Corporation - Chairman, CEO*

I don't think any of these are very uncommon in the industry.

Phil Gresh - *JPMorgan - Analyst*

Yes, understood. In fact, my follow-up for Jay would just be the view that he can get to free cash flow positive by 2020. I know Doug had asked about the base spend, but I guess more specifically in the Permian, if you could elaborate a little bit more as to how you get there, whether it is a certain cash margin number, a certain amount of CapEx that you think would be acquired in 2020? Just any kind of additional color to help us with that. Thanks.

Jay Johnson - *Chevron Corporation - EVP, Upstream*

Yes, so we are projecting forward that we would use today's conditions into 2020 and that is why we say at a flat $50 price. So we continue to grow production, obviously, based on that chart; that is all premised on a $50 price. We have 20 rigs, company-operated; 15 non-operated gross rigs (in the Permian).

When you put that together, along with our current performance on drilling, that is what gets us to the 20 flat. To the extent that there may be some cost increase, we are seeing that our improvement in efficiency and our improvement in the technology and the recoveries offset any of the price growth -- that is our assumption in making that statement.

Theepan Jothilingam - *Exane BNP Paribas - Analyst*

Good morning, it is Theepan Jothilingam from Exane BNP. Two questions please on the upstream. There's a -- you have certainly showcased the Permian, TCO, Australian LNG, but I was wondering how competitive is Chevron's portfolio outside those three basins in terms of a $50 flat environment? Could you talk about how the organization as an operator is recycling projects to be competitive at $50?

Second question is actually just around your exploration strategy for 2017 and beyond. If you could just talk a little bit more about where the emphasis is between high impact and perhaps infill brownfield extensions? Thank you.

Jay Johnson - *Chevron Corporation - EVP, Upstream*

So in terms of how we are being competitive, we have lowered our cost structure, as we said, $5 a barrel in our production cost over the last couple of years and brought our cost down 30%. We continue to drive to bring that cost structure down but, just as importantly, we are looking at bringing our efficiencies up.

We've made great strides in this area. We are using integrated operation centers in a number of our base businesses now, that integrate all the different functions together so that we are making decisions on a returns basis as we go forward. We have integrated a lot of our logistics operations, which really squeeze a lot more efficiency out of our transportation costs to support our businesses. These are going on around the Company.

As we have also shifted our capital into these base business opportunities, they are shorter cycle, they are higher return and they are lower risk because they are based on existing assets and existing reservoirs where we understand the nature very well.

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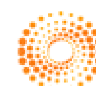

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We are seeing our incremental development costs associated with these types of projects in the $20 to $40 range and they are very competitive even at a $50 price. Now some, depending on the fiscal terms that we are in, may not be so competitive and we are shifting capital away from those areas and focusing on the ones that are competitive.

John Watson - *Chevron Corporation - Chairman, CEO*

Thailand, Nigeria, Bakersfield, all of these are economic at low prices.

Jay Johnson - *Chevron Corporation - EVP, Upstream*

Correct.

Jay Johnson - *Chevron Corporation - EVP, Upstream*

Exploration, this year we have got some important wells. We are going to drill a well up in the Barents Sea. A lot of the exploration areas that are very interesting today are the areas that have been either politically or technologically off-limits. So as we move into the Barents Sea, this is part of the area that was agreed between Russia and Norway, and we look forward to that well this year.

We have some additional drilling in the Gulf of Mexico adjacent to our Anchor discovery, and those constitute some of the main areas that we will be focused on as we look forward.

Neil Mehta - *Goldman Sachs - Analyst*

Thanks, John. Neil Mehta here with Goldman Sachs. Chevron has a unique perspective on the oil macro because you can see non-OPEC supply, OPEC supply, demand inventory. So, John, it would be terrific to get your perspective on each of these things and what stage of the rebalancing process you think we are in from the Group's perspective.

John Watson - *Chevron Corporation - Chairman, CEO*

Well, you are right; it has been a moving target in terms of rebalancing. Obviously, OPEC took some actions to try to accelerate that rebalancing. I think they were very deliberate in how they did it. They talked about a temporary reduction in production because they saw demand growing and the market is just taking a little bit longer to balance; they wanted to accelerate it. I think they have been very careful not to foreshadow cuts that would extend beyond a certain time period where the market is balanced.

I think going forward they have that flexibility to if they choose and I suspect they probably would, given their motivations. Having said that, one of the observations that I have is that the industry keeps getting better and a lot of the attention is focused on the shales and the potential there, but I think it is elsewhere as well.

If you look, for example, in the deepwater, we have been able to hold Agbami, Jack/St. Malo and others onto a longer plateau than we might have thought a few years ago with some of the extended reach drilling and other actions that we have been able to take.

So the plateau has been pushed out a little bit. At $50, not very many new projects will start. And you eventually get beyond the plateaus of some of these projects. Eventually you do need all those asset classes that Jay showed. And the exact timing is very hard to predict, and you have got all sorts of wildcards that are in there in terms of exchange rates, fiscal terms and how fast the technology moves.

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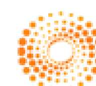

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But I do know that it is going to take all asset classes. The market is 97 million barrels a day, growing roughly at 1 million barrels a day going forward and shale is about 5 million barrels a day. I do think it is going to take all asset classes notwithstanding the industry's persistent ability to get better over time.

So we do think that prices will rise in the time ahead and we are not going back to $100 oil any time soon, barring some big intervention in the markets, but I do think that we are going to need better prices so that there are enough new developments that will begin over the next 5 to 10 years.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Thanks. It is Blake Fernandez with Howard Weil. I know you have already talked about cost inflation, but within your capital framework of $17 billion to $22 billion, is there an explicit assumption there for re-inflation, and are you viewing $22 billion as kind of a hard ceiling through the end of the decade?

John Watson - *Chevron Corporation - Chairman, CEO*

Yes, I tried to be pretty specific about the footnotes in some of those charts and that is why I said it is hard for us to see inflation when you are at the current prices we are seeing $50 to $70. I don't see massive inflation coming back to the business. You could see it in an isolated basin, but we have said that at $50 we will be at the bottom of the range of $17 billion in C&E. We don't think there will be any cost inflation at $50.

If there is a little bit higher price then perhaps we will see some higher costs, but we don't see $5 billion in costs from that $17 billion base getting above $22 billion. You could see some increasing costs, but we just don't see in that sort of a price range significant cost inflation coming back to the industry.

Roger Read - *Wells Fargo Securities - Analyst*

Hi. Roger Read, Wells Fargo. Maybe coming back a little bit to the balance sheet. You mentioned rating agencies as a component of keeping the debt ratio at closer to 24%, but then the graph also shows back in the 1990s, the last down cycle, a much higher level of debt. Would you be willing -- or what is the pushback from the debt-rating agencies in terms of how you grow the dividend over time maybe leaning on the balance sheet a little bit more, let's say, in a $50 to $55 oil world?

Pat Yarrington - *Chevron Corporation - VP, CFO*

Yes, we have conversations with the rating agencies at a very granular level and so they are very familiar with our plans -- the margin expansion, the production expansion, the growth in free cash flow, and very detailed explanations of timing and circumstances around asset sales.

So we are very open and transparent with them and they are very confident, I believe, that we do exactly what we say we are going to do. And because we have had a hierarchy of dividends first, investments second, balance sheet third, share repurchases fourth, and the fact that we try to balance those over time, they have a very good understanding of what our go-forward plan is.

They will take a look and they will do what they need to do based on our metrics. But I think when you look at our profile for free cash flow generation and the restriction that we have put upon ourselves over this down cycle on C&E and the limit that we put on C&E, the $17 billion to $22 billion range, and the fact that we have said at $50, that C&E level will be closer to the bottom end of that range. All of those factors give comfort to the rating agencies.

And they look beyond just the financial metrics. They look to see what is happening operationally, what is happening from an execution standpoint, what is happening in terms of reserve replacement. So I feel that they will take all of that into consideration.

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We do emphasize to them and to you as well that keeping a strong balance sheet is a priority for us and we will do our best over time to balance those considerations.

Evan Calio - *Morgan Stanley - Analyst*

Thanks. Evan Calio, Morgan Stanley. John, today you really project increasing free cash flow at a lower price, significant running room in the base of your assets and potentially shorter cycle times. Has the way that you think about M&A changed going forward? You seem to project to be more of a net seller.

And then, secondly, and related, if inflation, which was has been a focus here today, is the biggest risk to your US growth and the assets that you are highlighting with the highest growth profile, do you see the need to vertically integrate there to ensure deliverability, whether it be sand or completion as some of the other E&P peers have done? Thanks.

John Watson - *Chevron Corporation - Chairman, CEO*

Yes, a couple comments on M&A. Many of you I have worked with for a long time. If you go back a generation or so, you could look at M&A transactions and the synergy alone could pay for it. I mean real synergy, real cost synergy. And I have been on record for some time saying it is harder now. Markets are more transparent; everyone has gotten more efficient in what they do and so grinding out cost synergies is much harder in transactions.

We have a watching brief on lots of opportunities that might be out there, but when we look at the valuations, we see many of them as being pretty rich. And so we see company-level M&A as being pretty tough and I think that has been borne out. You haven't seen that much M&A relative to what you might have seen a generation ago.

So I think most M&A will tend to be more tactical or opportunistic. And with low interest rates, it has driven valuations up to pretty robust levels, so I don't particularly expect a lot of M&A, and I think our portfolio doesn't require it right now.

We do need to add to the portfolio over time, but we have done that, and I think you will continue to see us do that

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Jay Johnson - *Chevron Corporation - EVP, Upstream*

Yes, I think on the upstream question, we have taken the view that we don't have to be in those businesses. We use our global reach, we use our global relationships to work with contractors who have the ability to reach in and secure those resources that we need.

We feel very comfortable we are covered with those contracts. We have what we need for our supply chain, for the growth that we showed you, and we will continue to work those relationships just to make sure we have the supply coming to us, as I talked about earlier.

John Watson - *Chevron Corporation - Chairman, CEO*

Our industry is one of the most outsourced industries. We generally don't own the rigs, we've got construction companies we hire. It is very much dependent on service companies and contractors, and we don't see necessarily it being unique in the Permian. John?

John Herrlin - *Societe Generale - Analyst*

John Herrlin, Soc Gen. Two quick ones. Given the restructuring that you took since 2014, do you think you are adequately sized to deliver your short- and long-term growth plans? That is for you, John. And then the second one is for Jay. How easy will it be to do Permian swaps and then also how long are your horizontals?

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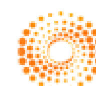

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John Watson - *Chevron Corporation - Chairman, CEO*

Okay, sure. We have been very much focused on trying to ensure we keep the right level -- I am assuming you are referring to human resource -- and we are properly sized for that. We have worked very hard to do that.

The challenge for us, frankly, with our employees has been as we come through this period of heavy spend, a lot of the projects we are going to be ramping down in terms of people. So some of the reduction in employment has been natural and it has been contractors as well. So as we finish projects, there has been a natural drawdown in the organization.

But we have also been very careful to keep some of the critical skills. For example, we haven't discontinued hiring some of the key petro tech disciplines in the United States. And we have kept some people beyond just the strict minimum that we might need for operations today so that we do have the flexibility to add rigs in the Permian or to take on a deepwater project or any of the other activity that we might need. But it is a tight balance and we have tried to be pretty careful in how we approach those reductions as we get more efficient.

Jay Johnson - *Chevron Corporation - EVP, Upstream*

Yes, to your specific question on the laterals where our goal is to drill mainly 7,500 to 10,000 foot laterals depending on the particular license that we are working, the development plan that we are working.

There are really four key parameters that we look at in designing our wells and our development plans. It is lateral length, the well spacing, cluster density and then the proppant loading and the combination of those four really are key to ensuring that we get the return from the well. We are not trying to set a record for highest production or getting the most sand loading per stage. What we are looking for is the return that we get for every barrel we produce out of that particular development.

In terms of the swaps, the swaps have been fairly straightforward to do. It adds value to both players on these swaps. When we can both drill longer laterals, it is truly a value creation opportunity on both sides, so it is rarely a win-lose, rather working with other companies to swap acreage and build longer lateral development positions works for both of us.

The key is, because we own so much of our acreage, we don't want to get too far out in front of our developments because then we are on a time clock once we make that swap. What we want to do is have sufficient time before development is going to begin. We can do the land position, develop the well queue and move into that development in an efficient manner.

So it is really part of the supply to the development factory drilling that John talked about that is just like our supply chain and the other aspects of being efficient in our development.

John Watson - *Chevron Corporation - Chairman, CEO*

Okay. Who haven't I gotten? We are getting near the end. Right here in the middle. That is fine. We will get both of you.

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

Hi, it is Anish Kapadia from Tudor, Pickering, Holt. First question is looking at the buybacks again. What are the triggers that you see to come into place to restart buybacks? Is that the debt ratio getting below 20%? Is there a sustained level of oil price that you require for that?

Second one is just a quick clarification on slide 9. You show around $3 billion of cash flow that is going to be a reduction in cash flow from the asset sales. Just wondering what is the kind of cash in from those asset sales that you expect?

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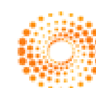

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The final one is on your CapEx, the $17 billion to $22 billion range, I was wondering if you could give some examples of what would drop out of the bottom end of the range and what would come into the CapEx budget on the top end of the range?

John Watson - *Chevron Corporation - Chairman, CEO*

Okay. Well, let's see if I can remember all those things. When it comes to asset sales proceeds, what we are showing on the cash flow chart is that we expect significant asset sales this year. And so as you look in the outer years, there is a negative delta on the contribution from asset sales because the proceeds will simply be smaller. So I think that answers that one.

In terms of share buybacks, I think you said it all in your question in terms of what we would look at. Our priority is on increasing the dividend, but we try not to get over our skis on the dividend because I would never knowingly increase the dividend if I didn't think I could sustain it in perpetuity.

But if we got to a position where our balance sheet was in a comfortable and good range, got to a position where we were increasing the dividend at a rate that we thought was appropriate and we were generating surplus cash flow, we would be more than willing to give some back to the shareholders through repurchases.

What was the third one?

John Watson - *Chevron Corporation - Chairman, CEO*

Oh, what falls out of the capital program? Well, if we're at the high-end of the capital range, I don't think it is anything other than what you have heard here. I think we have some flexibility to increase our base business investments.

Right now we are high grading quite a bit, but if we saw prices stay where they are and fall a little bit, we could add rigs in Bakersfield, we could add rigs in Thailand, we can add rigs in a number of locations. So you would see some additional spending that would be devoted to that type of high return activity.

And I also expect, as you get out toward the end of the decade, an Anchor development, for example, in the Gulf of Mexico, is an example of an opportunity that could go. But remember, the capital associated with one or two of those types of projects is much smaller than the big flagship type developments that we have indicated previously. I will take one more question from right here because you had your hand up.

Brendan Warn - *BMO Capital Markets - Analyst*

Thank you. It is Brendan Warn from BMO Capital Markets. I guess just on -- outside of your Permian business, and to add to your growth beyond 2020, your 2% that you talk about, are there any sort of near-term FIDs that we should be thinking about particularly just where say Rosebank is in that pecking order and also say for Canada at Kitimat if you can touch on those couple of projects for me, please.

And then just clarification more just so I understand, in terms of the 20 rigs, operated rigs you are looking to add by end 2018 at $50, can you just give -- is that regardless of oil price, that sort of number? I probably have a view that if we are in the $60 oil price range am I expecting we are going to be an additional 10 rigs on top of that.

Jay Johnson - *Chevron Corporation - EVP, Upstream*

Okay, so I will take Kitimat and Rosebank. Rosebank, as you know, is a deepwater project West of Shetlands. We have used this period of time in the low price to really revamp that project. We have gone through all the way back to the reservoirs. We have got good seismic, we have redesigned the subsurface as well as the surface facilities.

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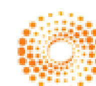

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We have moved the hull, for example, from being one of the largest turrets ever built in the world to now comfortably well within the envelope of what is established in the industry. Our goal is to de-risk these things and really take them back to basics.

Instead of building to maximize the production, we are looking to stretch out some of our production profiles because, while it may give you slightly less net present value, it gives us much higher capital efficiency because we can continue to drill the reservoirs and keep these facilities full for a much longer period of time. They are smaller and easier to build.

So Rosebank has attractive economics and, actually to build on the last question, we have far more economic projects today than we are willing to spend money on. It really lets us high grade. It is not so much a matter of can we get some other economic projects to invest in, it is just which ones do we choose and when.

So these deepwater projects, John mentioned Anchor, things like Rosebank, we are not looking to just pile them on top of each other. But, as I said before, we want to do these where we can assure excellent execution and at a pace where we can have this execution. We are looking to sequence them into our capital programs and we are looking to make sure that we build on the learnings of each one and roll it into the next.

Kitimat is really more about when do we expect to see additional demand for new LNG. Our main focus right now is on Gorgon and Wheatstone, getting those to a reliable steady-state operation. And then once we have that, looking at how to debottleneck those and get the maximum capacity out of that existing set of processing trains.

But at the same time, we have been doing appraisal drilling at Liard, we have got wells on production. It is very encouraging. It looks like a prolific resource. We are spending a lot of time looking at the development of the processing facilities for Kitimat. We have to get that cost down to a point where it can compete heads up with the Gulf of Mexico for Asia deliveries. That is our goal.

And I think as we put all that together, and then we combine that with the market, we will have a good indication of when is the right time for Liard.

John Watson - *Chevron Corporation - Chairman, CEO*

And just a quick comment on the rig question. The case we showed on the chart is 20 operated rigs and 15 non-operated rigs by the end of 2018 and it is at a $50 case. There is some variation around what the recoveries will be and so we have shown a range in the production.

What I said earlier is that we have evaluated -- Jay and his team have evaluated -- a number of other cases that, as we continue to deliver the kinds of returns we expect and realize the kind of recoveries that we talked about and with additional improvements, we can add additional rigs.

And what we have said is we have really got our supply chain lined out to do what we have described up to 20 rigs by the end of next year and then we are evaluating cases to see where we go from there and we always have a chance to update you next year. So with that I will thank you very much for your time and attention. That concludes our webcast.

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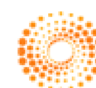

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