THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CVX - Q3 2016 Chevron Corp Earnings Call

EVENT DATE/TIME: OCTOBER 28, 2016 / 3:00PM GMT

OVERVIEW:

Co. reported 3Q16 earnings of $1.3b and diluted EPS of $0.68.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Pat Yarrington *Chevron Corporation - VP & CFO*

Bruce Niemeyer *Chevron Corporation - VP Mid-Continent*

Frank Mount *Chevron Corporation - GM of IR*

CONFERENCE CALL PARTICIPANTS

Jason Gammel *Jefferies LLC - Analyst*

Paul Sankey *Wolfe Research - Analyst*

Paul Cheng *Barclays Capital - Analyst*

Phil Gresh *JPMorgan - Analyst*

Doug Leggate *BofA Merrill Lynch - Analyst*

Ed Westlake *Credit Suisse - Analyst*

Neil Mehta *Goldman Sachs - Analyst*

Blake Fernandez *Howard Weil - Analyst*

Evan Calio *Morgan Stanley - Analyst*

Brendan Warn *BMO Capital Markets - Analyst*

Anish Kapadia *Tudor, Pickering, Holt - Analyst*

Ryan Todd *Deutsche Bank - Analyst*

Pavel Molchanov *Raymond James - Analyst*

PRESENTATION

Operator

Good morning, my name is Jonathan and I will be your conference facilitator today. Welcome to Chevron's third-quarter 2016 earnings conference call. (Operator Instructions). As a reminder, this conference call is being recorded. I will now turn the conference call over to the Vice President and Chief Financial Officer of Chevron Corporation, Miss Pat Yarrington. Please go ahead.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Okay, thank you, Jonathan. Welcome to Chevron's third-quarter earnings conference call and webcast. On the call with me today are Bruce Niemeyer, Vice President Mid-Continent business unit, and Frank Mount, General Manager of Investor Relations. We will refer to the slides that are available on Chevron's website.

Before we get started please be reminded that this presentation contains estimates, projections and other forward-looking statements. We ask that you review the cautionary statement on slide 2. I will begin with a recap of our third-quarter 2016 financial and operational results and then Bruce will provide an update on our Permian basin business prior to my concluding remarks.

Slide 3 provides an overview of our financial performance. The Company's third-quarter earnings were $1.3 billion, or $0.68 per diluted share. Third-quarter results included $290 million in special items related to a deferred tax benefit from the UK tax rate change and the receipt of an Ecuador arbitration award.

Excluding these special items, as well as the positive impact from foreign exchange effects of $72 million, earnings for the quarter totaled $921 million, or $0.49 per share. A detailed reconciliation of special items and foreign exchange is included in the appendix to this presentation.

Cash from operations for the quarter was $5.3 billion and our debt ratio at quarter end was 23.7%. Our net debt ratio was approximately 20%. During the third quarter we paid $2 billion in dividends.

Earlier in the week we announced an increase in our quarterly dividend to $1.08 per share payable to stockholders of record as of November 18, 2016. Our annual per share payout for 2016 will be $4.29 per share and represents the 29th consecutive year of growth in the annual per-share payout. We currently yield 4.3%.

Turning to slide 4. Cash generated from operations was $5.3 billion during the third quarter and $9 billion year to date. Year-to-date working capital effects of $1.3 billion and $3.1 billion in deferred tax items, for example those associated with tax loss positions, reduced year-to-date operating cash. These are timing effects.

Proceeds from asset sales totaled $800 million in the third quarter, including the sale of selected Gulf of Mexico assets. These transactions had a minimal impact on earnings in the quarter. Year-to-date asset sale proceeds are $2.2 billion.

We continue to pursue a number of potential transactions and we remain confident that we can achieve our $5 billion to $10 billion target for total proceeds over this year and next.

Cash capital expenditures for the quarter were $4.1 billion, a decrease of $2.7 billion from the third quarter of 2015. Year-to-date cash investment outlays have totaled approximately $14 billion.

During the quarter we advanced $2 billion to Tengizchevroil, or TCO, in support of the FGP project. This outflow is reflected in our cash flow statement as a borrowing by equity affiliates. This first co-lending tranche provides sufficient funding as the project commences. Future advances are expected and the timing will be dependent upon oil prices, TCO's internal cash generation and the project's pace of investment.

At quarter end our cash, cash equivalents and marketable securities totaled approximately $7.7 billion and our net debt position was $37.9 billion.

Turning now to slide 5. Slide 5 compares current quarter earnings with the same period last year. Third-quarter 2016 results were $754 million lower than third-quarter 2015 results.

Special items, primarily the deferred tax benefit related to the UK tax rate change, the award of an Ecuador arbitration claim, and the absence of third-quarter 2015 asset impairments, increased earnings by $535 million between periods.

Lower foreign-exchange gains decreased earnings by $322 million between periods. As a reminder, most of our foreign-exchange impacts stem from balance sheet translation.

Upstream earnings, excluding special items and foreign-exchange, were largely flat between quarters as lower crude realizations were offset by lower operating expenses and favorable tax impacts. Downstream results, excluding special items and FX, decreased by $1 billion primarily driven by lower worldwide refining margins and lower earnings from CPChem.

Turning now to slide 6. Here I will compare results for the third quarter of 2016 with the second quarter of 2016. Third-quarter results were approximately $2.8 billion higher than the second quarter.

The absence of second-quarter 2016 charges associated with special items and the inclusion of third-quarter gains from special items increased earnings by $2.7 billion between periods. Lower foreign-exchange gains reduced earnings by approximately $200 million between periods.

Upstream results, excluding special items and foreign exchange, were comparable between quarters, in line with relatively flat Brent prices. Lower operational expenses were offset essentially by lower lifting and adverse tax impacts.

Downstream earnings, excluding special items and foreign exchange, were higher by $255 million primarily resulting from the absence of unfavorable second-quarter inventory valuation effects. Prices were generally rising during the second quarter but relatively flat during the third quarter.

Turning to slide 7, here we compare the change in Chevron's worldwide net oil equivalent production between the third quarter of 2016 and the third quarter 2015. Net production decreased by 26,000 barrels per day between quarters.

Major capital projects increased production by 77,000 barrels a day as ramp ups continued at Gorgon, Jack/St. Malo, Chuandongbei and Angola LNG. About half of this bar is Gorgon.

Shale and tight production increased by 50,000 barrels per day primarily due to the growth in the Midland and Delaware basins in the Permian with all shale and tight basins reflecting year-on-year growth. More than half of this bar is Permian production.

Our base business declined with 66,000 barrels per day. Production from new wells and other brownfield investments in the base added 39,000 barrels per day and helped hold the overall base decline rate to less than 2%.

The sale of our Michigan assets and several assets in the Gulf of Mexico shelf resulted in decreased production of 47,000 barrels per day. Disruptions due to external events accounted for the temporary shut in of 27,000 barrels per day, mainly due to security issues in Nigeria.

Our planned turnaround activity was heavier than this time last year, resulting in a decrease of 26,000 barrels per day, the most significant of which was at TCO as we completed the turnaround of the second generation plant.

Based on nine months of actuals and our forecast for the fourth quarter, we anticipate full-year 2016 production will be approximately 2.6 million barrels per day.

Turning now to slide 8. As we indicated on the second quarter call, we expect to exit the year with December production in the range of 2.65 to 2.7 million barrels per day, or growth in the range of 150,000 barrels per day from the third-quarter average.

A major contributor, as previously discussed, is TCO's return to production on September 9 following the largest planned turnaround in its history ahead of schedule, under budget and without serious incidents or injuries.

Over the course of six weeks maintenance was conducted on more than 500 pieces of equipment. At its peak over 8,800 employees and contractors were on site for the turnaround. The team worked proactively with over 30 contract companies on all stages of planning, preparation and execution. This was a large undertaking that was exceptionally well executed.

The second contributor to volume growth in December is the ramp up of our LNG projects, notably Gorgon. At Gorgon, Train 1 production is stable and Train 2 is now online.

At Angola LNG, the plant reached a rate of approximately 5 million tons per year of LNG. Production has been suspended while minor modifications to reach full capacity are completed. Short duration shutdowns are often experienced as facilities are ramped up to their full capacity.

ALNG expects to restart the plant within the next couple of weeks and will continue to ramp up and fine-tune the system. Since the initial restart earlier this year they have shipped 8 LNG cargoes and 16 LPG cargoes.

In addition to LNG volume increases, we achieved first production from Bangka in August and expect first production from Alder before year end. We also expect continued growth in our unconventionals and from our base business investments.

Turning now to slide 9. At Gorgon, total Train 1 LNG production has been stable at an average rate of 110,000 barrels per day, which is about 5 million tons per year. We are also producing about 6,700 barrels per day of condensate.

As mentioned, Train 2 is running and producing LNG. Production is expected to ramp up over the coming months. We have shipped 17 cargoes to date and with both trains now running we expect to ship an average of two to three cargoes per week. Construction on Train 3 is progressing very well and we expect first LNG in the second quarter of 2017.

At Wheatstone our outlook for first LNG remains mid-2017 for Train 1. We are leveraging our experience from Gorgon and are pleased with our progress. All modules for Train 1 and Train 2 are now on site and the installation of piping, electrical and instrumentation continue as planned.

As we have foreshadowed, the delay in module delivery at Wheatstone has impacted project costs relative to the original 2011 estimate. We now forecast the total project cost at completion to be $34 billion. Chevron's share of the cost to complete the project is included in the $17 billion to $22 billion capital guidance range that we have previously communicated for the 2017 to 2018 years.

Bruce will now provide an update on our activities in the Permian. Bruce?

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

Thanks, Pat. Turning to slide 10. As we have shared previously, Chevron enjoys a very strong acreage position in the Permian basin. Our acreage is extensive, covering about 2 million acres. We have major holdings in the best basin locations and enjoy a significant royalty advantage over our competitors.

Our strategy in the Permian is centered on building a large-scale asset that delivers strong returns and generates free cash flow. To accomplish this we have implemented a well factory, modeled after the most efficient short cycle operations in Chevron and in industry.

The goal of this factory is to create repeatable high-value outcomes at sufficient scale that are material for Chevron. Decisions around many key design elements are consistently implemented, not only the obvious ones such as horizontal lateral length, well spacing and completion parameters, but also hundreds of other decisions that we face on a routine basis for which we want consistent outcomes.

As we identify and verify improvements they are quickly implemented into our basis of design. Our pace has been intentionally deliberate to allow us to incorporate the learnings and experience from own work and that of the industry. The result is a high degree of confidence that we will achieve the outcomes we expect. Our results are competitive and continue to improve.

Turning to slide 11, you can see Chevron's acreage position in more detail. This slide is a map of the Permian basin inclusive of Southeast New Mexico and West Texas. Our 2 million acres are depicted in blue, 1.5 million of which are in the Midland and Delaware basins.

Also depicted on the map are active Chevron-operated developments in blue and our non-operated development areas in purple. We believe the quality of our acreage position is exceptional, with multiple stack geologic targets.

Today, we estimate that almost 600,000 of our acres have a net value in excess of $50,000 per acre. We have an additional 350,000 acres with a net value between $20,000 and $50,000 per acre. The balance of our acreage is a mix. Some is of lower quality, some is still under evaluation, some lacks nearby infrastructure, and some requires further appraisal.

These estimates are a snapshot that assumes a simultaneous development, a flat $50 WTI price and are burdened with all the development and production costs as we see them today.

We are active in several Company-operated and non-operated joint venture development areas. We are currently running eight drilling rigs on our operated acreage, we are standing up our ninth rig as we speak and expect to be at 10 by the end of the year. Another 10 rigs are currently drilling on our non-operated development areas.

We prioritize development areas by value, which considers expected ultimate recovery, cost of development, oil/gas split, availability of surface infrastructure and our overall certainty of outcome.

Turning to slide 12. To achieve strong returns, we focus on all elements necessary to generate cash flow - capital efficiency, operating expense and product realizations. The graph in the upper right corner shows development cost per barrel, which, in our view, is the ultimate measure of capital performance as it incorporates all sub metrics.

We have achieved a 30% development cost reduction from 2015 fully inclusive of drilling, completions, facilities and associated G&A. We have accomplished this through a focus on improving expected ultimate recovery, driving execution efficiencies and implementing supply chain savings. This is delivering capital performance that is competitive with the operators of our joint ventures.

The trend of improvement is mirrored in our overall unit operating expense. The lower right graph reflects both the downward trend and competitive performance of our direct lease operating expense and illustrates a significant reduction of 45% from 2015.

Our lease operating expense includes all costs required to operate a well and its associated facilities during its life. We expect these wells to produce for decades, so attention to operating efficiency unlocks value.

Additionally, G&A, which is not included in the graph on the lower right, is a component of overall operating expense. Our year-to-date G&A is $3.50 a barrel, declining through the year and more than 20% from 2015.

The third critical aspect of cash flow is product realizations. We have leveraged the scale of our core positions to systematically secure cost-effective priority access through the entire crude and gas value chain rather than simply selling production at the wellhead. Because of this we have options available to respond to changing market and industry conditions.

Turning to slide 13. We expect activity and production from the Permian to grow through the end of the decade. As we discussed in our Analyst Day last March, by the end of 2020 Chevron's Permian shale and tight production is expected to reach 250,000 to 350,000 barrels per day. As you can see on the chart, we have initiated this growth.

Production continues to track ahead of expectations and is 24% higher than third quarter 2015. We continually monitor our performance and have the option to adjust the pace of our growth as needed to optimize value from this asset.

While growing production is important, we are focused on expanding margins by increasing efficiencies in our operations and on capturing maximum value from the resource base. We believe we are well-positioned to make the Permian a legacy asset with strong returns and free cash flow. I'll now hand back to Pat to discuss spend reductions. Pat?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Okay, thank you, Bruce. Now on slide 14. We continue to reduce our spend. You can see on the charts the huge progress that we have made and continue to make in curtailing our outflows. We expect 2016 combined operating expense and capital expenditure outflows to be down more than $12 billion, or more than 20% from 2015.

We expect to meet, if not exceed the commitment we made earlier in the year to have 2016 operating expenses come in $2 billion lower than 2015. And our C&E is trending below the guidance range previously provided for this year. We will likely end the year below $25 billion in capital outlays, in fact potentially coming in closer to $24 billion.

This is a tremendous amount of progress in a relatively short 24-month period of time to reset these key financial parameters consistent with a lower-for-longer price environment.

Turning to slide 15. I would like to close with just a couple of points. First, our financial priorities have not changed. Sustaining and growing the dividend is our first priority. The increase this quarter demonstrates that commitment, which is underpinned by confidence in our future earnings and cash flow growth.

Second, we are beginning to see evidence of that cash flow growth, notably now that Gorgon Train 1 is operating well and Train 2 is successfully online and with Gorgon's Train 3 and Wheatstone Trains 1 and 2 planned to come on in fairly rapid succession over the next five quarters.

We have approximately 85% of the production from these five trains sold under long-term contracts. And at today's contractual LNG prices, this represents a significant revenue and cash margin boost.

Third, we have successfully transitioned to a lower price environment. Of course, we are not resting on these recent accomplishments. We will continue to look for opportunities to improve cost and capital efficiency.

We are poised to be a very resilient competitor in a low price world. Our Permian asset base speaks directly to this. Here we have an abundance of riches in terms of the physical asset base and we are successfully demonstrating the ability to develop this resource in a highly capital efficient, returns-focused manner.

With costs coming down, with C&E and capital intensity coming down, with our major LNG projects and the Permian production coming online to boost cash margins and production our overall financial picture is set to improve in a meaningful way as we move into 2017.

Our objective is to get cash balanced in 2017 assuming $50 Brent prices. All of these improvements I have just noted, as well as targeted asset sales where we can transact for value, are key components supporting that objective.

So this concludes our prepared remarks and we are now ready to take some questions. Please keep in mind that we do have a full queue and try to limit yourself to one question or perhaps one follow-up if necessary. We will certainly do our best to get all of your questions answered.

So, Jonathan, could you open the lines please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jason Gammel, Jefferies.

Jason Gammel - *Jefferies LLC - Analyst*

And thanks especially for the incremental disclosure on the Permian. I would like to direct my question there.

Bruce, you mentioned that the finding and development cost was probably one of the most important metrics that you have in the basin. Can you talk about how you are benchmarking yourself against some of the E&P companies in the basin and how you think that might improve as you get your infrastructure into place?

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

Thanks for the question, Jason. On slide 12 we showed finding and development cost per barrel. The lighter bars are the Chevron operated activity and the darker bars are those of our NOJV competitors where we also invest.

That is our best direct benchmarking comparison because we invest in the wells and we're able to see the full value chain that is created. We are able to address financial performance issues directly that aren't often available from a less complete data set.

I suppose there is a narrative that a company of our size can't be competitive, but in the case of Chevron we are. The NOJV partners that are listed on this chart are some of the best in the basin and you can see on the chart that our performance today is competitive and improving.

Jason Gammel - *Jefferies LLC - Analyst*

That is great. Just as a follow-up, can you maybe address the pace of development that you think you could achieve? I recognize that you have got your projection of volumes through 2020. But with such a huge acreage position what type of rig program do you think you could ultimately apply in the basin?

And then I suppose the other question there would be, just given the position you have, would you maybe consider monetizing some of the position through acreage sales or through joint ventures?

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

Let me start with pace first. So we are already growing; as I noted, we have initiated the growth. In fact we have added five rigs over essentially the second half of 2016. That is a pace of rig additions of about one rig a month.

Production has grown from the third quarter of last year by 24%, further supporting the notion that we are growing and our pace and rate of additions are intentional. Again, we are focused on returns. I don't feel capital-limited in the Permian basin.

And our additions are targeted to ensure that we are getting the outcomes we intend and that are supportive of high returns and eventually generating free cash flow. We do expect to grow, as you noted, you can see that on slide 13. And as we go forward we have options. We continually monitor our performance and we adjust.

Pat Yarrington - *Chevron Corporation - VP & CFO*

And, Jason, let me just add a thought to that. As you know we have had a practice of evaluating assets when we have pieces of our portfolio where we felt there wasn't long-term strategic value or we felt others would offer more value to us than we would obtain in our portfolio. In those cases we have been willing to make asset sales, and we have had a very routine practice of having asset sales over a number of years.

I think the key to getting to that point in the decision process is having a really good understanding of the value of the asset. And in the Permian basin there has been a great deal of fluidity of that asset valuation over the last couple of years.

There has been additional appraisal and evaluation work and there has been greater understanding of the asset base, but there still has been significant movement in valuations. In some cases pieces of property have moved up by a factor of 10,000 fold.

And that is the kind of thing that you would not want to get on the wrong side of in your haste to make a decision about selling an asset. So our process will be to try to do evaluation and appraisal so that we'll get a really good understanding of the asset valuation.

And to the extent that we don't find it fitting into our longer-term development plan, then of course we would look to other monetization options.

Frank Mount - *Chevron Corporation - GM of IR*

Thanks, Jason.

Jason Gammel - *Jefferies LLC - Analyst*

Thank you.

Operator

Paul Sankey, Wolfe Research.

Paul Sankey - *Wolfe Research - Analyst*

A follow-up for Bruce on the Permian. How much are you guys spending there annually? Could you give us an idea of the level of CapEx and the outlook for CapEx?

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

Yes, Paul. We are spending presently in the area of about $1.5 billion annually across both the Company operated and our non-operated joint venture programs.

Paul Sankey - *Wolfe Research - Analyst*

And so the outlook for that is flat is it or is that going to go up?

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

I would expect it to go up. At our current pace we are delivering a growth profile. You can see on slide 13 what we shared at the Analyst Day last March in terms of production growth and there will be some growing activity that would support that.

We are continually getting more efficient and so the capital invested that we expect going forward will be more efficient as reflected by the finding and development cost trend that we showed on slide 12.

Paul Sankey - *Wolfe Research - Analyst*

Understood. So if I look at the Tengiz expansion, you are spending -- previously in September you had said $18 per BOE of development cost for I think a $36 billion investment. Why would you be spending so much less in the Permian at what I think looks like a $10 F&D cost per barrel? Maybe that one is for Pat.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Yes, it is. So, Paul, just a couple of things. If you go back to slide 13 here, I think we have said that -- and we said this back [in the SAM] and throughout the year here -- that we could see the top end of that light blue portion of the profile and that would result in approximately a doubling of our current activity levels.

We are spending $1.5 billion here, and you can see us potentially doubling that. That is the current view that we have, but again, this is an area that we will update you on when we get to the March security analyst meeting.

In reference to FGP, the future growth project in Tengiz, it is important to know that we are funding both of these projects, both the Permian fully and FGP. We think of these areas as being absolutely critical growth areas for us so we are not starving the Permian because we have taken on FGP.

I think what people often miss around FGP is that there would be a tremendous loss of value if we didn't go forward with the wellhead pressure management piece of the project because the field would go into serious decline and would be a loss of value in the legacy asset.

We are doing FGP and WPMP together because of synergies, it is a joint development concept, and there is a lot of upside that has not been built into people's models related to debottlenecking. The debottlenecking success we have been able to demonstrate in the past we hope to do on a go-forward basis.

There are also additional gas handling facilities built in to the project that will allow greater oil production. We have also talked about the full project contingency even though we were at 50% of engineering when we took FID.

And then of course down the road obviously we hope that this turns into concession extension. So there is a lot of potential upside to FGP. I think Jay did a great job on our second-quarter call in running through all of those parameters.

Paul Sankey - *Wolfe Research - Analyst*

Got it. So what you are saying is $18 per barrel development cost is a very conservative number for FGP and it would be competitive with the Permian ultimately when all of these things are considered?

Pat Yarrington - *Chevron Corporation - VP & CFO*

We think we need both assets in our portfolio, yes.

Paul Sankey - *Wolfe Research - Analyst*

Thank you, Pat.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays Capital - Analyst*

Two questions if I could. Bruce, what is the recovery rate that you use to get to that 9 billion barrel that are using - 10%, 12%? What do you expect and foresee that that recovery rate may change over the next say five years?

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

So the 9 billion barrels is from a portion of our acreage that is currently highly characterized. It varies by horizon and by area in the Midland or Delaware Basins. Recoveries are generally single-digit and we know that in a basin or a play at this stage of maturity there is a lot of upside potential.

We have a technology organization that is working hard every day to take the first stage of development and improve upon it, much as we have in other asset classes that we operate in and are more mature.

Paul Cheng - *Barclays Capital - Analyst*

Will you be willing to give what you forecast that recovery rate may look like in five years?

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

No, not at this point.

Paul Cheng - *Barclays Capital - Analyst*

Okay. Pat, a second question then. Wheatstone - you're talking about a cost increase. Given the lower Australian dollar and supposedly weaker labor market which has translated into better productivity, can you elaborate a little bit more on what's causing the cost increase?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Sure, Paul, as I said, we are now expecting a $34 billion total project cost, so that is up about $5 billion from the original AR. That original appropriation request was taken in 2011 and, as you can all appreciate, during the first few years of construction there was a much more heated market.

We have talked in the past about our late module delivery and this really was one of the primary drivers behind the cost increase. The modules were delayed due to poor performance at one of the fabrication yards.

The contractor was unable to effectively manage the size and the scale of the work scope that we had given. We recognized that somewhat early on, and we did end up redirecting some of the work to other yards. But even so, the modules were late.

A second factor that I would comment on is really an underestimation of the quantity of materials that were required. At the time we took FID on Wheatstone we had project engineering that was about 15% complete and so the rest was based on rules of thumb and factors.

As we matured the engineering definition, the amount of quantities needed increased substantially, and so that was a secondary reason behind the cost increase.

I would say the second element was something that we had seen on Gorgon as well and it is one of the primary areas where we are trying to improve our project execution going forward.

As you know, when we took FID on FGP we were at about 50% project engineering level. So this is one of the primary improvement practices that we are putting in place for future projects.

Paul Cheng - *Barclays Capital - Analyst*

Thank you.

Operator

Phil Gresh, JPMorgan.

Phil Gresh - *JPMorgan - Analyst*

Bruce, you had made a comment on one of the earlier questions about a free cash flow focus and I was just wondering if you take together what you have said about capital spending and the production outlook.

When would you expect the Permian to become free cash flow positive? And how do you think about some of the assets in the Permian that might need some more material infrastructure spending?

Is that something that you guys are really willing to spend a lot of money on in the next few years or are you more focused on immediate cash flow?

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

So thanks for the question, Phil. We will provide more color and specifics in the Analyst Day next March. We do have internal projections on when the overall program reaches free cash flow and that obviously depends on a number of factors including the trajectory that we pursue.

And I will remind you again, we have many options we can adjust based on the results that we see. We do have an integrated approach where we not only connect the upstream activity that we are engaged in - drilling and completing wells, but also pair that with midstream activity to move product to the market centers that we choose.

We typically engage in that through commercial transactions. It is a very competitive basin; there are a lot of companies that operate in that space. We typically deploy our capital in the areas where we can differentiate our performance in drilling and completions.

And then, working with high-quality third-party suppliers, look to them to move the crude to market, operate the gas processing and NGL fractionation activities.

Phil Gresh - *JPMorgan - Analyst*

Okay, got it. Thanks. And then my follow-up -- I guess maybe this would be best for Pat, following on what Paul was asking about $10 F&D in the Permian, $18 for Tengiz.

Where would you say, as you are assessing the deepwater opportunities in the portfolio, particularly the brownfield side of things, how would that stack up at this stage as costs continue to come down?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Brownfield would be very good. Greenfield would be a little bit more challenged, but brownfield would be very good.

Phil Gresh - *JPMorgan - Analyst*

Okay, thanks.

Operator

Doug Leggate, Bank of America Merrill Lynch.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Pat and Bruce and Frank, I am not sure who wants to take this one, but I guess Chevron has always been a Company led by large scale major project developments, exploration and so on.

And I guess what I am really trying to understand here is what are the limiting factors on the Permian given its flexibility, lower execution risk, the absence of the kind of cost issues you have had in things like Gorgon and Wheatstone.

I guess what I'm asking is -- is the Permian big enough to drive a much more meaningful strategic shift in how Chevron allocates capital longer-term? Is that what we are looking at here?

Pat Yarrington - *Chevron Corporation - VP & CFO*

I think best if I take that one here, Doug. When you have such an extraordinary asset base in the Permian, when it has as much depth and breadth to it -- and I don't mean that in a literal sense but a figurative sense -- such huge economic strength. Everything else in the portfolio really needs to be judged against those options.

We don't believe we want to be just a single asset class company, so we have great strategic capabilities and basin positions in the Gulf of Mexico deepwater. We have the Tengiz project that we talked about, we have the LNG projects.

We have a pretty broad-based portfolio here and we are not looking to take all activity down to the Permian. But the value of the Permian - its tremendous economic capability and its capital efficiency, its great flexibility, its short cycle/high return attributes ensure that other parts of the portfolio have to compete for capital against that.

So I think it raises the bar on where the incremental dollar is going to go. I think Permian will get the first call, but we will manage the portfolio. And over time you should still expect us to have some significant other projects. We can pace those projects quite nicely I think, and match those against the opportunities the Permian provides for us.

Doug Leggate - *BofA Merrill Lynch - Analyst*

So is it pretty simple, Pat, the Permian is going to take market share from the rest of your portfolio, is that a good way of thinking about it?

Pat Yarrington - *Chevron Corporation - VP & CFO*

I think that is reasonable within limits.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Okay, my follow-up just very quickly

Pat Yarrington - *Chevron Corporation - VP & CFO*

And we will go through more of this in the security analyst meeting in March because I think that is really where it's the appropriate time to lay out our portfolio.

Doug Leggate - *BofA Merrill Lynch - Analyst*

I guess a related question my follow-up is that there has been -- we haven't talked much about the disposals in a couple quarters. I am guessing a high grading exercise, if you want to call it that, like the Permian changes the map a little bit in terms of what competes for capital.

There has been some speculation around Bangladesh which is sizable obviously. I think you have talked about that publicly. Can you just give us an update as to where you see the changing map on disposals both in scale and for perhaps any identified assets that have changed since the Analyst Day?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Yes. We really haven't changed our view. We look at asset sales when we can get good value, where we see it as not strategic or we don't see any kind of the compelling relationship within the Chevron portfolio.

We have announced certain assets for sale and we put a list out in the second quarter. The current list essentially is the same. I can confirm that there are commercial discussions going on in and around Bangladesh. But I will go back to the primary element here which is we want to get good value.

And so, on any of these transactions that we have queued up and are beginning to have people into data rooms, either in an early round or a secondary round, if in fact we don't get the value proposition that we are seeking then we will just move on.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thanks very much.

Operator

Ed Westlake, Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

Slide 12 is great and shows how you have made improvement. I guess you are still a little bit above the development cost of the non-operated JV partners. Is that geographical, are there some different ways that you approach the business? So just maybe some color on that.

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

Sure, Ed. We are providing you quarterly data on this chart and it is an aggregation of everything that was completed in that particular quarter. And you are right to suspect that there is a little portfolio aspect to what goes on in any particular quarter.

We have operations in both the Midland and Delaware Basins on the Company operated side and on the NOJV side as well. And the mix of activity in any particular quarter is going to cause those bars to be up and down a little bit.

If we had the fourth quarter of 2015 you would see the first two quarters where the Company operated bars are a little lower and the last two quarters where the NOJV bars are a little lower. But we look internally at a much finer level of detail. Wolfcamp B wells in the Central Midland Basin that are a mile and a half laterals and are we comparable in that activity or not, and what do we address about that?

The overall performance is competitive and I will tell you that there is a competitive group, there is a lead pack in the Permian and we are a part of that. I think the data on slide 12 shows that and some of the quarter-to-quarter variations are simply a function of which particular wells are completing.

Because our costs include full cycle, there are facility costs in our bars in the quarter in which we start wells in a new area that have central tank batteries or other things that are being executed in that period.

Ed Westlake - *Credit Suisse - Analyst*

It is just a great portfolio with also tax and royalty advantages. And you will want to get after it; the rest of the industry is getting after it. Maybe just give us some high-level thoughts about inflation.

On the one hand there are probably still learnings that can improve that development cost as you progress. On the other hand things might get a little hot over the next few years. So maybe just some high-level thoughts as to how you think about that.

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

Yes, we have certainly driven in the last two years to a very positive position. We operate in a dynamic price environment and a dynamic activity environment.

Over the last two years we have really leveraged the scale of Chevron where we have an advantage to do so. So tubulars, or the pipe that goes in the wells, is a key cost component and Chevron buys a lot of pipe around the world. So we are able to leverage our worldwide supply chain effort to bring a pricing advantage to what we do.

We also consolidate work with key suppliers, they give us the right combination of unit price, execution performance, access to technology and the ability to grow with us.

And then we've put in place some contractual arrangements with unit-based fixed terms, some are index-based, some of these include performance incentives. But they are all intended to keep us on the competitive side of the price curve irrespective of what commodity prices are doing.

Structurally the things that stay with us in any price environment are things like multi-well pad designs which we have done for a very long time, the acreage position that we have that allows us to drill longer lateral lengths, and efficiencies we engage in on a daily basis such as zipper fracking where you have activities occurring simultaneously. Those will stay with us regardless of what price does.

Ed Westlake - *Credit Suisse - Analyst*

Thanks, Bruce.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs - Analyst*

Pat, really good progress here on capital spending. Where do you believe we are tracking relative to guidance here in 2016 for CapEx? And then relative to the $17 billion to $22 billion, any early look of how the deflation you have seen in 2016 will carry forward?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Yes, so I think we had said before that in 2016 we thought we would come in at around $25 billion. I think last time I said even below $25 billion. And this time I am really thinking we'll probably be closer to $24 billion. So a significant reduction from a year ago's time.

We are in the process of doing our business plan right now. The range that we put out for 2017 to 2018 is in the $17 billion to $22 billion range. I think we will be in that range. We are just going through and doing the business plan prioritization at the moment.

And typically we'll come out with a C&E press release after our Board approves the plan. I don't really want to get ahead of that. But obviously the cost efficiencies that we have seen, and that Bruce just talked through for his business unit, those are going on around the globe in terms of supplier optimization, supplier rationalization and we are getting our supply chain costs down.

That will continue and I think we will hold onto that. The one area where there probably is a little bit of an inflationary element will be the Permian because that is where investment is being attracted.

But when you look around that is really not happening in the rest of the world. Investment is not going to those locations, so we are not seeing those kind of cost pressures. We believe the efficiencies through the supply chain organization we been able to capture will hold there.

Neil Mehta - *Goldman Sachs - Analyst*

That is a good follow-up. And maybe for Bruce here, as you see activity pick up in the Permian, do you see any bottlenecks either from an infrastructure perspective, labor perspective, or other parts of that resource that will make it difficult for you to achieve the high end of the range that we talked about?

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

We certainly recognize, Neil, that we have to plan ahead and we do so. When you think about takeaway, our efforts in maximizing realization have a secondary component which is flow assurance. To make sure that we are able to move to the market centers of the locations where we ultimately wish to sell without being disrupted.

When you get to the supply of drilling and completing wells and the suppliers that we work with, we pick intentionally in part for their ability to grow, both in terms of the availability of the equipment, the type of equipment we want and in terms of how they will staff and maintain that staffing going forward.

So there will be some changes overall in the basin, but we are taking a multi-year view and are able to look a little bit into the future and base our planning around that.

Neil Mehta - *Goldman Sachs - Analyst*

Thank you.

Operator

Blake Fernandez, Howard Weil.

Blake Fernandez - *Howard Weil - Analyst*

Pat, going back to the deflationary pressures you are seeing on CapEx. I think you alluded to a $50 Brent breakeven, which is pretty consistent with what you had articulated before. Is it fair to think that that number is trending lower also?

Pat Yarrington - *Chevron Corporation - VP & CFO*

We are working very hard to get that number lower, absolutely. And it certainly has moved down from when we first put that target out there, meaning our actuals are moving in that direction.

So, yes, we are trying as best we can through operating efficiencies and capital efficiencies to have our outflows contained relative to the inflows that we anticipate coming. So it's what I consider to be a cost structure reset and a capital expenditure reset given the environment that we are in.

Blake Fernandez - *Howard Weil - Analyst*

Okay, fair enough. And then, Bruce, on the Permian, it looks like you are trending above the top end of guidance on your range. Obviously you are adding rigs, we probably haven't seen the full impact of that yet. Is there any reason to believe that you are not on track to potentially surpass what the upper end of this range is here?

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

Well, we are ahead now and our guidance remains the same at this point to 2020 -- 250,000 to 350,000 barrels a day. Our Analyst Day in March is the typical time where we would unpack more of that for you and everybody else.

Blake Fernandez - *Howard Weil - Analyst*

Good deal. Appreciate it.

Operator

Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

Good results today. My first question, staying with the Permian, Bruce I know some of your acreage in South West Reeves overlaps Apache's recently announced Alpine High play. Can you share your view on the viability of that play, potential economics and how that would or may compete for capital with this Permian core that you have laid out today?

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

Sure, Evan. Well, let me start first by saying we are excited by this activity and hope it is fully successful. We have 180,000 acres in our portfolio and you can see it there on the slide. But it is a great example of how our strategy has played out across the Permian, allowing the industry to de-risk and create data that can refine our assessment.

Alpine High, that area in the southern part of Reeves County is right now on our overall portfolio pie in that wedge that is labeled less than $20,000 per acre. The subsurface is structurally more complex, it appears to be a little more gassy and it is far from existing infrastructure.

Additional positive data certainly has the potential to move that area to higher value. And if it does we go through a regular reset of priorities and we would adjust our activity, as that reset indicated.

Evan Calio - *Morgan Stanley - Analyst*

Great. Maybe my second is -- it is a follow-up to some prior Permian questions. Does the upside to your Permian production range, which is the same as it was in May despite improvements here?

Does that represent the limit to how much you can grow in a capital efficient manner and maybe that looks achievable on a 30-rig program by the end of 2020? And if so what are the limiting factors in your current plan to how much the Permian can take and subsequently grow?

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

Well, so, our focus in the near-term and quite frankly throughout, is on capital efficiency. We are focused not on chasing a particular production curve -- growing production is important, growing volume is important, but retaining efficiency throughout is what we do.

We have many options going forward to adjust our pace of activity up and down. We have the ability to grow activity, but it is returns that we are ultimately focused on and that will drive our decision making going forward.

Evan Calio - *Morgan Stanley - Analyst*

Great.

Operator

Brendan Warn, BMO Capital Markets.

Brendan Warn - *BMO Capital Markets - Analyst*

Good morning or good afternoon, wherever you are sitting in the world. I'm going to ask a question away from the Permian if I can. If I could just get an update on Rosebank in the UK North Sea just in terms of -- I know you are out rebidding and renegotiating. Just how you are seeing that project stack up in terms of its cost if you can give any update and I have a follow-up, please.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Well, I think all I can say at this point, is in essence we are staying with that project in FEED while we are trying to get the development costs down. So I don't have a lot of specific information to provide for you.

With what has happened to oil price, and what has happened to the optionality that we have here in the Permian, there is a competing-for-capital element that Rosebank has to fight for within our portfolio. So we are continuing to work at it.

We recognize how important Rosebank is to the region, we recognize how important it is to the UK, but we have in the past been able to take a second look at the design and get costs down. In the past we have been able to re-characterize the subsurface and work improvements in there and we are still working on that same process.

Brendan Warn - *BMO Capital Markets - Analyst*

And follow-up, just how much would the weaker pound assist that project in terms of economics?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Obviously it would help, but I don't have the ability to quantify that for you at the moment.

Brendan Warn - *BMO Capital Markets - Analyst*

Okay, thank you. Thanks, Pat.

Operator

Anish Kapadia, TPH.

Anish Kapadia - *Tudor, Pickering, Holt - Analyst*

My first question was on some of your other potential international project sanctions. I wanted to get a little bit of an update on the Gulf of Mexico projects where you are at in terms of the appraisals and potential development. So the ones I was thinking of were the Anchor projects, the Tigris project and Sicily.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Okay, so on Anchor we are still in the appraisal process, we feel positive about it but we are still in the appraisal process there. On Tigris there are multiple fields that are involved, appraisal drilling has been completed and we have filed for a suspension of production here. On Sicily we have allowed the leases to lapse.

Anish Kapadia - *Tudor, Pickering, Holt - Analyst*

Okay, thank you. And then I had a question for Bruce on the Permian. Again thank you for the useful slides that you put out.

In terms of the high graded area that you have talked about, the 600,000 acres, within that I was wondering if you could give some idea of the number of locations that are contained within that in your current thinking. And which benches that you are looking at are you currently thinking are going to be developed in that acreage?

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

Well, the areas that are at the top of our queue vary between the Midland and Delaware Basin as do the horizons. The things that we are most interested in are again those that create the right kind of full cycle returns. And so the oil/gas split between those areas, cost of execution of those areas is what causes them to be in the top tier for us.

So in the Midland Basin Wolfcamp B and the lower Spraberry are two horizons that we like a lot. We also like some aspects of the Wolfcamp in the Delaware Basin. We are drilling wells in a few other horizons.

But there isn't a one-size-fits-all. You move to one part of the basin and that particular horizon that you are interested in is just not as great a value as others. So what we do in these development areas is put together a strategy that paces development based on value.

We go to the best-performing horizon on a return basis first and then follow it with the others. There is not a simple answer that fits the whole basin.

Anish Kapadia - *Tudor, Pickering, Holt - Analyst*

Thank you.

Operator

Ryan Todd, Deutsche Bank.

Ryan Todd - *Deutsche Bank - Analyst*

Great result. Maybe I will stick on the trend and ask one Permian question followed by another one. In the Permian, if you look at your acreage, if you look on the map on 11, and you have shown this map a number of different times. But you've still got a lot of checkerboard acreage across core portions of the Permian basin.

Any further interest at this point in potential JVs or partnerships like you did with Cimarex in the past that would allow for an increasing amount of long laterals and capital efficient developments? How do you think about managing that acreage going forward?

Bruce Niemeyer - *Chevron Corporation - VP Mid-Continent*

So it is a good question. We are actually very actively engaged in swaps working with the individuals that would own or have rights to checkerboarded acreage. And we have actually executed quite a number of those. It does allow us to extend laterals, concentrate facilities and infrastructure in certain places.

We will also contemplate joint ventures where that would lead us to the right kind of return outcomes if a combination of acreage in some way leads to a more efficient result.

But I will tell you what has been more active for us in the last year and a half, has been finding acreage consolidations that we can make through swaps. And that is bolstered by the fact that our Company operated execution is becoming highly efficient and those are the sorts of activities that are driving returns to the top of our queue.

Ryan Todd - *Deutsche Bank - Analyst*

Great, thanks. And then maybe if I could ask one question for Pat there, kind of a high-level philosophical one. If we look at what the majors such as yourself have been able to do in terms of capital reduction over the past couple years it has been quite impressive.

And as we look forward over the next let's say two to five years, and I realize there is a time variable in this. How do you think about what a reasonable level of sustainable CapEx is?

If you talk about potentially being sub $20 billion a year in a 2017, has there been enough structural cost deflation or efficiency gains that that is a reasonable medium-term level to think about longer-term? Or does that still feel like capital starvation mode and there is a need to bounce back into some level in the 20s as more sustainable over the medium-term?

Pat Yarrington - *Chevron Corporation - VP & CFO*

So I think the critical variable that you are leaving unsaid there is what is happening to price. Just a little bit on price, I think our own view here is that in the medium-term we are potentially going to be range-bound.

We are constructive on price and we do think over time there will be price appreciation, but we see it being relatively modest. But in the period that we are talking about here I don't see that changing our view of the $17 billion to $22 billion range being appropriate for us.

You are hearing an awful lot about the Permian being one of the best investment opportunities that we have. And the great thing about that is that it is short cycle, it is high return, it is very flexible. It lowers our capital intensity, gives us greater flexibility than we have had in several years.

And the only other major project that we've sanctioned at this point in time is TCO. Our share of that in terms of an outflow would be in the range of $2 billion to $3 billion a year over the next few years. So we consider that to be very manageable and that is within the $17 billion to $22 billion range that we have given you.

So I think that is a reasonable range on C&E to expect for us under a reasonable range of prices that might be anticipated. I think we have time for one more question.

Operator

Pavel Molchanov, Raymond James.

Pavel Molchanov - *Raymond James - Analyst*

Just a quick one about Nigeria. You mentioned losing 28,000 a day in Q3. What kind of recovery have you seen on your Nigerian assets so far this quarter and what is embedded in the exit rate guidance that you gave for the year?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Well, I think we have two factors going on. We have had some instances of sabotage as we have talked about. We had a more recent one here in the last couple of days. So that is obviously a detriment that is impacting Nigerian production.

But on the opposite side we have Agbami plateau extension investments coming on line. So I think that it is not a huge factor in terms of a variance in what we are showing for the December exit range.

Pavel Molchanov - *Raymond James - Analyst*

Appreciate it.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Okay.

Frank Mount - *Chevron Corporation - GM of IR*

Thanks, Pavel.

Pat Yarrington - *Chevron Corporation - VP & CFO*

All right, so I think that concludes our call for the third quarter here. I would like to thank everybody for your time on the call. We certainly appreciate your interest in Chevron and we appreciate everybody's participation on the call. Thank you very much.

Operator

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