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EDITED TRANSCRIPT

CVX - Q4 2016 Chevron Corp Earnings Call

EVENT DATE/TIME: JANUARY 27, 2017 / 4:00PM GMT

OVERVIEW:

Co. reported 2016 loss of $497m and 2016 earnings, excluding special items and FX, of $1.8b. 4Q16 earnings were $415m and diluted EPS was $0.22.

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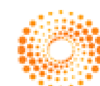

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CORPORATE PARTICIPANTS

John Watson *Chevron Corporation - Chairman & CEO*

Pat Yarrington *Chevron Corporation - VP & CFO*

CONFERENCE CALL PARTICIPANTS

Phil Gresh *JPMorgan - Analyst*

Doug Leggate *BofA Merrill Lynch - Analyst*

Neil Mehta *Goldman Sachs - Analyst*

Paul Sankey *Wolfe Research - Analyst*

Jason Gammel *Jefferies LLC - Analyst*

Paul Cheng *Barclays Capital - Analyst*

Ed Westlake *Credit Suisse - Analyst*

Evan Calio *Morgan Stanley - Analyst*

Alastair Syme *Citigroup - Analyst*

Roger Read *Wells Fargo Securities - Analyst*

Guy Baber *Simmons & Company - Analyst*

Anish Kapadia *Tudor, Pickering, Holt - Analyst*

Blake Fernandez *Scotia Howard Weil - Analyst*

PRESENTATION

Operator

Good morning, my name is Jonathan and I will be your conference facilitator today. Welcome to Chevron's fourth-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 Chairman and Chief Executive Officer of Chevron Corporation, Mr. John Watson. Please, go ahead.

John Watson - *Chevron Corporation - Chairman & CEO*

Thanks, Jonathan. Welcome to Chevron's fourth-quarter earnings conference call and webcast. On the call with me today are Pat Yarrington, our Vice President and Chief Financial Officer, and Frank Mount, our General Manager of Investor Relations. We will refer to the slides that are available on our 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.

Let's start with the key messages on slide 3. I said we needed to do five things well to adjust to lower prices. First, finish projects under construction, which reduces spend and brings on new revenue. Gorgon Train 1 and 2, Chuandongbei, Bangka, Alder, Angola LNG are all on production and stable. In 2017 progress will continue with Gorgon Train 3 and Wheatstone coming online.

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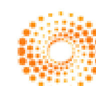

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Second, we need to reduce capital expenditures and focus on work that is profitable at lower prices. 2016 capital was down 34% or $11.6 billion from 2015. We are further reducing capital spending in 2017 and investing a larger percentage of capital in short cycle, high return opportunities presented by our advantaged portfolio.

Third, we are lowering operating expenses by getting more efficient in all that we do. 2016 operating expense was down 9% or $2.5 billion from 2015 and we expect further reductions in 2017.

Fourth, we need to complete planned asset sales. We are on track with $2.8 billion in proceeds in 2016 and we expect 2017 proceeds will likely move us towards the upper end of the 2016/2017 guidance range of $5 billion to $10 billion we previously communicated.

And finally, we need to do all of this while operating safely and reliably.

The result, free cash flow is improving with momentum building through 2016. We expect to be cash balanced in 2017 and the cash flow improvement to continue into 2018 and beyond. Our actions support our number one financial priority which is maintaining and growing the dividend as the pattern of earnings and cash flow permit.

Turning to slide 4, Chevron's total shareholder return outpaced our major competitors and the S&P 500 in 2016 and is number one relative to our peers for any cumulative holding period going back 20 years.

We appreciate the support from our investors but recognize markets are forward-looking and expectations are high. We need to continue to deliver on our commitments and manage our advantaged portfolio for growing cash flow and competitive returns. Pat will now take you through the financial results.

Pat Yarrington - *Chevron Corporation - VP & CFO*

Thank you John. Turning now to slide 5, which is an overview of our financial performance. The Company's fourth-quarter earnings were $415 million or $0.22 per diluted share, while earnings for the full year 2016 were a loss of $497 million. Excluding special items and foreign exchange Chevron earned $1.8 billion in 2016. A detailed reconciliation of special items and foreign exchange is included in the appendix to this presentation.

Fourth-quarter results were impacted by non-routine items and timing effects. Downstream results were weak, reflecting adverse timing effects because of a rising crude price environment and an extensive turnaround at the Richmond refinery, a once in every five year event. At the same time, fourth-quarter corporate charges, which are known to be non-ratable, were heavier than an average quarter.

Our debt ratio at year end was 24%. During the fourth quarter we paid $2 billion in dividends bringing our total for the year to $8 billion or $4.29 per share. 2016 was our 29th consecutive year of an annual per share increase. We currently yield 3.7%.

Turning to slide 6, cash generated from operations was $3.9 billion during the fourth quarter. Fourth-quarter cash flow benefited from stronger oil prices but had offsets in seasonal Downstream margin patterns and the Richmond refinery turnaround.

On a year-to-date basis operating cash flow totaled $12.8 billion, a function of low oil and gas prices and weaker Downstream margins than in 2015. 2016 working capital consumption of approximately $600 million and lower affiliate dividends relative to earnings reduced operating cash. We had deferred tax items of nearly $4 billion; for example, those associated with tax loss positions. These will benefit cash in future periods.

Proceeds from asset sales for 2016 were $2.8 billion. Cash capital expenditures were $4 billion for the quarter and about $18 billion for the full year excluding expensed exploration. This continues a trend towards lower outlays. At year end our cash and cash equivalents totaled $7 billion. Our net debt stood at $39 billion resulting in a net debt ratio of approximately 21%.

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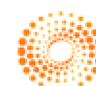

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Turning to slide 7. Slide 7 compares 2016 annual earnings to 2015. Full-year 2016 results were a loss of $497 million or approximately $5 billion lower than the 2015 result. The impact of special items, primarily due to lower gains on asset sales, reduced earnings by $515 million. Lower foreign-exchange gains decreased earnings by about $710 million.

Upstream earnings, excluding special items and foreign exchange, decreased $798 million between periods as lower realizations were only partly offset by lower operating costs and exploration expense. Downstream results, excluding special items and foreign exchange, decreased by $2.8 billion primarily due to lower margins. Recall that 2015 Downstream margins were among the strongest we have seen in a number of years.

The variance in the "Other" segment primarily reflects higher corporate charges and interest expense. Full-year 2016 results are in line with our standing guidance of $350 million to $400 million in net charges per quarter for the "Other" segment.

Turning to slide 8. I will now compare results for the fourth quarter of 2016 with the third quarter of 2016. Fourth-quarter results were approximately $870 million lower than the third quarter. The absence of third-quarter 2016 gains from special items reduced earnings by $290 million between periods. Lower foreign-exchange gains reduced earnings by approximately $50 million between periods.

Upstream results, excluding special items and foreign exchange, increased approximately $850 million between quarters primarily reflecting higher crude realizations, higher volumes and lower taxes. Downstream earnings, excluding special items and foreign exchange, were lower by $765 million. This outcome was primarily driven by decreased volumes and increased operating expense associated with the Richmond refinery turnaround, lower worldwide margins and an unfavorable swing in inventory timing effects.

The variance in the "Other" segment is largely driven by adverse tax effects and corporate charges. These impacts are non-ratable and tend to fluctuate from quarter to quarter. And now I will turn it back to John.

John Watson - *Chevron Corporation - Chairman & CEO*

Thanks, Pat. Turning to slide 9. 2016 capital spending was $22.4 billion. That is approximately $4 billion less than our original budget and more than $11 billion lower than last year. Cash C&E was $18.7 billion. Reductions are mainly from finishing our major projects under construction, pacing and high grading future investment and realizing efficiency gains and supplier cost reductions.

In December we announced a total capital and exploratory budget for 2017 of $19.8 billion which is right in the middle of our $17 billion to $22 billion guidance range for the period out to 2020. Cash capital and exploratory expenditures, which exclude affiliate spend, are expected to be $15.1 billion.

70% of our expenditures in 2017 will generate cash within two years, reducing cash flow cycle time and financial risk. 2016 operating expense was $25 billion, better than we had most recently guided and more than $2.5 billion less than last year.

We are sizing the organization to fit the work we anticipate. Our employee workforce is down 9,500 since the end of 2014. We have improved work processes and have negotiated better rates from contractors and vendors. Upstream operating expenses excluding fuel are down nearly $3 per barrel since 2014. Most significant workforce reductions are behind us but our focus on improving efficiencies in all aspects of the business continues and we expect further progress on OpEx in 2017 and beyond.

Slide 10 shows the sources of changes in production between 2015 and 2016. 2016 net production was 2.6 million barrels per day. Growth continues from completing and ramping up major capital projects. Our short cycle shale and base business work was excellent, particularly in light of significant reductions in spending. We limited declines in mature fields by improvements in reliability and drilling work and an effective workover program. Production was impacted by the ongoing shut-in of the Partitioned Zone, security issues in Nigeria and Gulf of Mexico asset sales.

Looking at the fourth-quarter bar you see that the fourth quarter was strong and production growth is accelerating. As we start the year, two trains at Gorgon are running near capacity, Angola LNG is operating well and the successful Agbami and TCO maintenance shutdowns are behind us.

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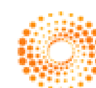

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We expect production growth this year of 4% to 9% at $50 per barrel before asset sales. The uncertainty reflects variables such as the speed of major capital project ramp ups, external events such as the timing of the Partitioned Zone restart and our ultimate base decline rates.

Growth comes from a number of areas. First we expect to see full-year production from projects started up in 2016: Gorgon Train 1 and 2, Chuandongbei, Angola LNG, Alder, Bangka. And we also expect to see partial year contributions for projects starting up in 2017: Gorgon Train 3, Wheatstone and Mafumeira Sul, for example.

Shale and tight production, headlined by the Permian, will also show growth as we take advantage of our valuable acreage. Base declines along with full-year 2017 impacts of sales consummated in 2016 will both reduce production. The impact of 2017 asset sales on the timing of the close of the individual transaction is one variable. Our current estimate is a reduction of 50,000 to 100,000 barrels a day.

Turning to slide 12. The chart on the left side shows our $5 billion to $10 billion guidance range for asset sale proceeds for 2016 and 2017. In 2016 we made good progress with $2.8 billion in proceeds as we sold assets for value that were not essential to delivering our strategy, didn't compete for capital with our current opportunity set and were worth more to others than to us.

Additional opportunities are in progress and many will close in 2017. We expect proceeds close to the top of the guidance range.

With new assets coming online and the benefits of portfolio actions we expect to increase cash margins. The chart on the right shows a doubling of production in the more than $25 per barrel category and a reduction in low margin barrels.

Despite the sharp reduction in capital spending we had a strong reserve replacement year, exceeding 100% before asset sales for the one- and five-year periods. We saw significant adds from the final investment decision on TCO's Future Growth Project. Additionally, there were reserves added from improved reservoir characterization in several areas and strong well performance in shale and tight and various other locations.

Lower commodity prices benefited entitlement volumes from profit-sharing and variable royalty contracts. This was partially offset by lower economic producibility in a few assets.

Asset sales resulted in a RRR --- reserve replacement rate -- slightly below 100%. Consistent with the expectation of 2017 asset sales impacting production, we also expect an impact on 2017 reserves from these sales.

Let's talk now about some of the major activity, starting with Gorgon. Gorgon currently is stable with gross output of over 200,000 barrels a day and 130 million cubic feet of domestic gas output. A total of 39 cargoes have been shipped, 10 since the beginning of the year.

Train 1 ramp-up was below expectations as we worked through startup issues we discussed previously. All learnings from Train 1 were applied to Train 2 and consequently Train 2 ramped up to over 90% of capacity within a week and continues to exceed expectations. Train 3 is also expected to benefit from these learnings. Construction is complete and we are well into start up and commissioning. We expect first LNG early in the second quarter of this year.

At Wheatstone our outlook for first LNG remains mid-2017. All modules for Train 1 and Train 2 are on their foundations and the site is under permanent power. Ongoing hook up and commissioning of the offshore platform is the critical path activity. We are leveraging our experience from Gorgon and incorporating learnings into our ongoing activities. We expect Train 2 to start up 6 to 8 months following Train 1.

Turning to the Permian, we're making excellent progress. Last year we lowered unit development costs by 20% and lowered unit operating costs by 35% compared to 2015. We are improving recoveries and our results are validating expectations around improvements in type curves. We are currently running 10 Company operated rigs and we are adding a new rig about every eight weeks.

The story keeps getting better. We will update this chart and provide much more information about our Permian operations at our Analyst Day in March.

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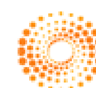

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That concludes our prepared remarks. We are now ready to take some questions. Keep in mind we have a very full queue, so please try to limit yourself to one question and one follow up, if necessary, and we will do our best to get all of your questions answered. Thanks. Jonathan, please open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Phil Gresh, JPMorgan.

Phil Gresh - *JPMorgan - Analyst*

I just want to start on the 2017 production guidance. If I look at that guidance on an absolute volume basis, at the midpoint it would be around 2.75 million barrels a day. And I know it is a little bit stale, but a couple of years ago you had talked about a 2.9 to 3.0 type of range and obviously a lot has changed from then to now. But I was hoping you could help bridge some of those moving pieces between project timing, asset sales, PZ effects and really just trying to think through ultimately after 2017 how much additional uplift to volumes there would be from projects.

John Watson - *Chevron Corporation - Chairman & CEO*

Yes, it is a good question. If you go back to that time we did put out an estimate of a 2.9 to 3 range. And actually the results we are showing you now are very consistent with that, with a couple of exceptions. The first and obvious one is the Partitioned Zone. We were producing -- we expected we would be back up and operating and that is about 70,000 barrels a day. So that is a clear delta.

The second is the effects of asset sales that we didn't anticipate at that time. If you add up what is already closed you can get another 70,000 barrels a day pretty quickly. And so, you put those two together and that is 150,000 barrels a day and that really explains it.

Now, as you point out, there are some other ups and downs, notably some delays in capital projects. But the flipside of that is we got benefits -- the shale and tight volume is growing, Jack St. Malo has performed better than we expected, and we have a little bit of benefit from price effects. But those about offset. So the two big items are the Partitioned Zone and asset sales and you get right back into the zone we talked about.

Phil Gresh - *JPMorgan - Analyst*

Okay, got it. That is very helpful. And then the second question would just be on the longer-term CapEx budget. Looking at the bars that you gave for 2017, there's still $2 billion in there for Gorgon and Wheatstone and then another $2 billion-plus, it looks like, just looking at the bars, for projects that are outside of Tengiz.

So I guess I was just wondering how you are thinking about that $17 billion to $22 billion range, especially as we look at 2018 and you potentially have a couple billion still rolling off. Are there a lot of projects in the queue that you think work in the mid-50s or how are you thinking about that now?

John Watson - *Chevron Corporation - Chairman & CEO*

First, if I go back a year and you told me we would be able to do all the work we did this year and have spending of $22.4 billion, I wouldn't have believed it. So we have made remarkable progress in bringing our costs down.

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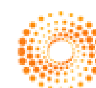

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I had my drilling guy in the other day and he gave me an example. The wells we drilled in 2016, if we had had the productivity we had in 2014, we would have spent $1 billion more, and that was just in the deepwater. So the efficiencies we have put in place have allowed us to bring down cost.

The trend of spend is down. And as you point out, we have some major capital projects that are being completed. If we are still in the $50 to $55 world you will see us tracking at the bottom end of that range.

Now we are showing a range out to 2020, that is a four-year period. When you think out over that time period, obviously a lot of things can change. Notably I would expect that we would see an increase in unconventional spending. We've talked about ramping up the Permian and I think that will be the case. We are budgeting about $2 billion this year, but you could easily see another $1 billion there. We have very little activity in the Marcellus now. We have gotten very efficient there, but we would expect better market conditions and offtake capability. We have made good progress in the Duvernay and Argentina. So, just in the shale and tight area you could see some increases. But again, that is short cycle, high return activity.

Now we do have some opportunities in the portfolio if we continue to make good progress on concepts and delineation drilling, things like Anchor and Tigris and we have highlighted Rosebank and a few others.

We have a good queue of projects. But we need to make sure that those have the right economics associated with them. All of that can comfortably fit in the range that we have talked about. But I will just say that if we are at $50 to $55 you should expect spending to go down next year.

Phil Gresh - *JPMorgan - Analyst*

Thanks, John.

Operator

Doug Leggate, Bank of America Merrill Lynch.

Doug Leggate - *BofA Merrill Lynch - Analyst*

You have normally talked about the base business and the tight unconventional business in the same breath as one is offsetting the declines in the other. So my first question is, in the context of declining rates and maintenance spending, your budget this year puts that number about $8.5 billion. Is that how we should interpret Chevron's definition of maintenance CapEx on a go forward basis? At least for the portfolio as it stands today?

John Watson - *Chevron Corporation - Chairman & CEO*

Yes, I think that is right. If I understand the question, we have been trying to isolate the shale from the other base business activity just because it is such a high profile activity. The fundamental nature of it has a lot of similarities with base business in the sense that it is relatively short cycle activity and it has to compete for capital with, for example, infill drilling in Bakersfield or Thailand or places like that.

I think that is the right way to look at it. And that is why we have talked about declines in the 2% to 3% range. And despite the big drop in capital we were able to maintain that decline rate. But I think that is the right way to look at it.

And I think we will generally separate the shale from the base business so that you have transparency in that way. Because, you are right, if you lump them together it will mask what is going on in the underlying conventional business. So, if I understand your question right, I think the answer is yes.

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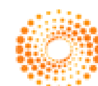

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Doug Leggate - *BofA Merrill Lynch - Analyst*

Okay, I appreciate that, John. That is what I was trying to get at. My follow up is also in the Permian. I realize you probably want to hold some details for the Analyst Day, but just to kind of frame this --.

Exxon has done the BOPCO deal, they are talking about going to 15 rigs. My understanding is it's a fraction of that number today. You are talking about adding a rig every eight weeks, stepping up your spending and so on. Can you give us some idea, John, what is the strategic thinking here? Is there a real pivot away from large capital projects, at least in the short term to work in the Permian?

And if that's the case, how big a piece of the portfolio would you like to see the Permian ultimately represent, given things like dividend commitments and other portfolio decisions that you have? And I will leave it there. Thanks.

John Watson - *Chevron Corporation - Chairman & CEO*

The chart on slide 15 we have not updated since the last time we talked, but we will update it the next time that we see you. And if my foreshadowing was any good you know that it is likely to improve. We have taken a different approach than some in the Permian.

We have taken the approach of trying to delineate, understand what we have and then put together plans that consider offtake, consider infrastructure and really get lined out so that we can steadily grow over the period consistent with generating good returns in this business.

Now, we have told you we have been able to bring our costs down, but we will continue to ramp up. We talked about over the next couple years getting up to 20 rigs, but we are not limited per se. We are only limited by the good planning that we can do, the planning around infrastructure, around rig contracts, the quality of crews, frac spreads and other aspects of this, so that we can move forward rapidly. And we will continue to do that.

It is kind of interesting -- we hear a lot about how rapidly others are doing, but the facts are we only had five non-operated rigs running at the end of the year. And we have been steadily growing during the year. There is a lot of up-and-down that other operators put in place.

As we add rigs, we want those rigs to be in service to us going forward. We want a steady ramp up and not be whipsawing our organization around. And so you will see us steadily growing. And I have told my group in the Permian that they are not capital limited, they just need to be sure that they are disciplined about their spend, that we get good returns on it, and that we properly evaluate the acreage.

Just one anecdote for you getting at the efficiency argument that might be of interest. We added to our resource base 500 million barrels this year in the Permian without spending any money. And we did that by watching what offset operators have done. Obviously these are continuous plays.

By being a little bit behind others we have been able to learn and that has helped us prioritize the spend that we are doing. We will prosecute our agenda, you will see the potential and growth profile rise. In an overall sense it wouldn't surprise me to see our unconventional activity be 25% of our production by the middle of the next decade.

So this is a really solid asset class, but it is one that is going to be driven by our ability to generate good returns and fit the proper role in the portfolio.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Appreciate the answer. Thanks a lot.

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Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs - Analyst*

There has been some investor questions about Gorgon and Wheatstone timing especially with some of the choppiness around Train 1 in the fourth quarter. But it sounds like your message is you think everything is tracking well here. Can you give us an up to date on what the confidence level is around construction execution at the assets and what the greatest risk to timing at Gorgon and Wheatstone ramp is?

John Watson - *Chevron Corporation - Chairman & CEO*

Gorgon is done would be the way I would describe it. The construction is completed on Train 3. Train 1 and 2 are operating near capacity. In fact, the only remaining thing to do is to bring on the Gorgon offshore field. We have been running on the Jansz field. And so we will fill out those plants 100% when the Gorgon field comes online shortly. In terms of construction activity at Gorgon, all is good.

Now we have to have an effective start up and commissioning process. And we had some bumps on Train 1, we talked about that before. But I have been really pleased that the organization has taken all that in and addressed anything from those learnings on Train 2 and on Train 3.

It has obviously been very effective on Train 2 and I have no reason to believe it won't be effective on Train 3. But a strong start up and commissioning is really key for Gorgon. But my subtlety in my comments was we expect LNG early in the second quarter. So I think the story at Gorgon is a good one.

At Wheatstone we are making good progress certainly at the plant. And the comment I made is the critical path activity is the offshore platform. Now the well work, the subsea flow lines, pipelines, umbilicals -- all that is complete. Train 1 construction is nearing completion and commissioning is well underway.

And so the critical path activity is in some of the platform piping systems that are taking a little longer to complete and be commissioned. We have supplemented our workforce on the platform, but it hasn't changed our expectation of a midyear start date. It is just the ongoing activity and ebb and flow in the construction work. The plan is still for midyear start-up of that plant.

The message I am trying to give you is it's pretty good. And as activity winds down you can really focus on the work phases that are still open, high grading crews. I expect you will continue to see a good story coming out of this. It is obviously a little bit earlier in the process, so there is just more work to do than Gorgon. But it is also progressing well.

Neil Mehta - *Goldman Sachs - Analyst*

And shifting to policy, there is obviously a lot of changes under this new administration. One of the things that's caught a lot of investor attention is the border tax adjustment. John, what is your view on whether that is good policy and whether that has a meaningful impact on global oil prices and the refining business if it goes through?

John Watson - *Chevron Corporation - Chairman & CEO*

Well, Neil, I have seen what you published and others and I think you have assessed it reasonably well. Let me make a couple of comments.

First, in an overall sense I have been very pleased with the agenda that the Trump administration has. We have seen an avalanche of regulation over the last decade. And putting a much more balanced cost-benefit framework in place to assess the value of those regulations, freeing up infrastructure pipelines - all of that is quite positive for our business, for the country, job creation and a lot of things. So that is very much a positive.

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We all know that our tax system is not competitive. We want American companies to be able to compete. There is a lot of work being done to try to bring down corporate rates so that we can compete both at home and abroad for capital. Of course the administration has a focus on bringing jobs and capital back to the US and lower rates will help that.

In my view they are looking for pay-fors, they are looking for ways to make those lower rates happen. They are looking at a variety of different concepts. And the truth is there are a lot of different ideas being floated right now. I think they are looking for input and we will continue to provide it.

President Trump has indicated that the border adjustment concept is complex and I would agree with that. I think we need to take a close look at perhaps the consequences of that, both some that could be positive and the unintended consequences in terms of impact on consumers, exchange rates and knock on effects on the global economy.

I have no doubt the administration will do a good job at doing that and will settle on the right kind of tax reform at the end of the day. But I think we need to have a little patience for the different ideas that are being put out there and hopefully we will get to the right outcome.

Neil Mehta - *Goldman Sachs - Analyst*

Thanks, John.

Operator

Paul Sankey, Wolfe Research.

Paul Sankey - *Wolfe Research - Analyst*

John, could you talk about OPEC this year and the impacts that you anticipate? My understanding was that Partitioned Neutral Zone would be part of the cuts. But also I would be interested if you had observations on some of your other areas of exposure. And a couple of the more obscure ones would be obviously Venezuela and exactly where you are at in Nigeria right now. Thank you.

John Watson - *Chevron Corporation - Chairman & CEO*

The short answer is I don't expect a significant impact from any of these things on our operation. Certainly in Venezuela and Nigeria, indications are they have been operating at lower rates and we have no indication that we are going to be impacted.

When you look at the Partitioned Zone and you look at the public comments that have been made by Kuwait, they have a strong desire to get the onshore Partitioned Zone -- where the Saudis and Kuwaitis are partners and we represent the kingdom of Saudi Arabia. They have a strong desire to get that online and they have indicated that it won't have an impact on quotas.

To me the issues are between the two governments and if they can resolve those we'll be able to bring it back up. I think both countries have flexibility in terms of which fields they produce and where that volume will come from.

We think those are high-margin barrels when they come on line. During this time when we've been down there, our people have taken the time to dramatically reduce costs and they have taken a close look at the reservoir. We have a queue of base business activity that is very high return. It will compete with the best we have got in the world and it is very economic.

I think the Kuwaitis understand that and I think there is a desire to get it back on production. But, these are issues between government and I'm going to give you a forecast of when that might be resolved.

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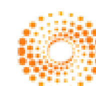

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Paul Sankey - *Wolfe Research - Analyst*

Right, but on balance you are expecting little impact from OPEC. My follow up is on decline rates. John, you have talked in the past a lot about them. Have you been surprised by how little global oil supply has declined post 2014? And do you anticipate an acceleration in declines? Thank you.

John Watson - *Chevron Corporation - Chairman & CEO*

Yes. You know, it is a really good question, Paul. I think the short answer is -- I have been surprised at how resilient production has been in many locations around the world. Some of that is we just keep getting better. If you look at, for example, some of the deepwater developments that we and others have, we have been on plateau at Agbami for a long time and we have been on plateau in some of our Gulf of Mexico projects.

I think we and others are getting very good at extending plateaus and technology only goes in one direction. We hear about it in the context of the shales, but the same thing is true in other conventional activity. I think the short answer is I have been a little surprised and with the benefit from, for example, Russia from declining exchange rates and things of that sort it has made some of that base activity more competitive, ultimately.

However, you do need new major capital projects to fill the gap if you look out a few years. We are just not seeing FIDs being taken on significant new greenfield opportunities. At some point we do expect to see, at least in the conventional area, some declines in production. There is a limit to this. It has surprised us that it has held up as well as it has, but at some point you are going to need new activity.

Operator

Jason Gammel, Jefferies.

Jason Gammel - *Jefferies LLC - Analyst*

John, I wanted to come back to the comment you made about 70% of capital spend having an effect on production within two years. Now I assume part of that is still spending on major capital projects that start in that time. But, nevertheless, it does illustrate how much you are shifting towards short cycle spend.

And really the question is how has this changed how you manage the risk profile of the Company on a move forward basis? Thinking really about how you view uncertainty of earnings from the production profile by not having the big step changes necessarily being as impactful? And how you think about the balance sheet without having those big capital commitments?

John Watson - *Chevron Corporation - Chairman & CEO*

Well, I think it is true. There are different kinds of risk when you think about a deepwater development versus some of the base business activity or some of the shale developments. We are cognizant of that. I think that has driven some of the comments you have heard me and Pat make about how we look at the balance sheet.

During the period of time in the early part of this decade I was very clear, going back five years plus, we were heading into a period where we had significant major capital projects. We were going to keep some capacity on the balance sheet. And so we had more cash than debt on the balance sheet because we knew we were going to be drawing on the balance sheet.

Now we didn't expect to see the drop in prices as big as we saw, but it proved to be pretty wise to keep that capacity on the balance sheet. Now we are in a different period. We do have the Tengiz project, but I don't see anything like a Gorgon, Wheatstone [or Tengiz] that is in our future. We could see a deepwater development, but none of those are of that same magnitude.

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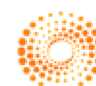

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And with the drop in interest rates that we have seen during that period, debt is a very effective form of financing. We want to keep some capacity on the balance sheet to withstand the ups and downs and be in a good position to take advantage of opportunities. But I think you will see us carrying more debt on the balance sheet than we have in the past.

We have talked in the 20% to 25% debt range and we think that balance is keeping some capacity and taking advantage of the low cost of debt. The key for us is having some financial flexibility around our capital spending that really reduces the execution risk and means you don't have to keep as much capacity on the balance sheet.

Jason Gammel - *Jefferies LLC - Analyst*

That is helpful.

Jason Gammel - *Jefferies LLC - Analyst*

Okay, I have two quick questions about what is included in the production guidance. If I look at the chart on page 10, if I take the net of the base decline and the base investment, it implies a mitigated decline rate of 1%. Could you tell me what factors into the guidance range and then also how the Partitioned Zone factors into the 4% to 9% guidance range?

John Watson - *Chevron Corporation - Chairman & CEO*

Sure. I think if I understand the question, the base declines that we show by that red bar are in the 2% to 3% range. And we do have a range. The bottom of the production range in our estimate that we put forward assumes that we get nothing from the Partitioned Zone this year. The top of the range assumes it starts up about midyear or so.

Those are the two variables. And that is why we put the fuzzy bar and some brackets around it because I just can't handicap that perfectly. But the base decline is in that 2% to 3% range.

Jason Gammel - *Jefferies LLC - Analyst*

Very clear, thanks.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays Capital - Analyst*

John, if we look at the industry it seems like you are already at the bottom and the Company is in good shape, that projects are coming on stream and you should reach cash flow neutrality and it depends on projects that should be cash flow positive. So can we -- using this opportunity that you're already resizing your Company also for this -- currently the lower oil prices.

So can we step a step back and maybe you can tell us that how in the next 5, 10 years how you want to position? What are the roadmaps that you have in mind? How do you want to differentiate yourself with the peers and the other international major corporations? I mean is it that everyone is now saying that there is no differentiation, we're in commodity business and the big major IOC is really in a disadvantage on the business model?

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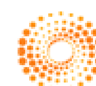

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So can you help us to wrap it altogether now that you no longer -- not you necessarily, but for most other people, that no longer is in the mode of survival, can we look a little bit further out, now can you afford to look at it and think that give us what is the roadmap?

John Watson - *Chevron Corporation - Chairman & CEO*

Sure. It won't surprise you that I don't agree with some of those assessments. I think we are in a terrific position and some of the TSR data that we show, even looking at independents over a period of time, we look pretty good. I would tell you that we are differentiated from some of our competitors. And let me see if I can describe why.

We are an integrated oil and gas company. And we have shown a bias toward the Upstream portfolio. We think over time we can earn very strong returns and that we have competitive technology and assets to do just that. We do have a strong Downstream and Chemical business. It earns good returns, it has complementary activity that add value to some of our resources around the world, as well as a lot of very talented people.

We will have a Downstream and Chemical business. But certainly we will be predominantly an Upstream Company. That in and of itself is a bit of a difference from some of our competitors.

Within the Upstream we also differentiate ourselves by the quality of the assets that we have. There are risks to being a company that is only in one particular asset play regardless of how good that play is. And we have a diverse portfolio.

For example, if you look at our position in Australia and the resource base we have there, we will have five LNG trains plus a position in a third project down there in the Northwest shelf. We have a very advantaged manufacturing position and a lot of resource that can feed those facilities over time. Australia is a terrific asset.

Tengiz we have talked about. That distinguishes us from many of our competitors. And the Permian is of course the emerging asset and we have got a terrific position there that I think is the envy of a lot of others. You are seeing us, and you will see us in the future really, get after that business. And I haven't even talked about the talent we have and the asset position we have got in the deepwater and elsewhere.

So we have a very good portfolio that I wouldn't trade with anybody. And I think over time the diversity in that portfolio will show benefits. Any one asset has some risk associated with it from an industry perspective. And I think we have got a position that is second to none.

Now our approach going forward is to -- we know we have to improve returns because in a lower price environment the financial returns haven't been what you or I would want them to be. But if you look at the cost trends and the efficiency trends that we have got and where we are putting our capital going forward as the capital base rolls over, I think we have got some very strong assets so that going forward the assets that we have got, the investments that we will be able to make, will earn good returns.

I think all of those things distinguish us in what is, from a top-line point of view, a difficult time that we are emerging from and one that will not likely be the same $100 environment that we saw a few years ago. So maybe that is a long answer, but that's (multiple speakers).

Paul Cheng - *Barclays Capital - Analyst*

Really great. Just a quick second one, Venezuela. Any insight to how bad is the oil industry in the country at this point? And do you think that any systematic risk is likely? Or that if not, then do you think that the current production capacity actually will be able to hold relatively flat or will you further continue to see pretty steep decline for the year?

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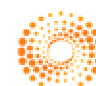

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John Watson - *Chevron Corporation - Chairman & CEO*

For the most part I can only comment on our operations. We have been able to navigate pretty well down there and have good relationships in Venezuela that we have been able to maintain. And we have a structure in place that is enabling us to continue work, enabling us to continue to invest and importantly to enable the contractors, the tax authorities and ourselves to get paid. And so that seems to be working very well.

What I point out is despite the concerns about what is happening in the country right now and some of the difficulties they are encountering, they have a huge resource base. Chevron is well respected there. I think there is an opportunity for us to play a very constructive role in Venezuela going forward, certainly maintaining the existing assets that we have and potentially, as time goes forward, participating in other opportunities there. But it is unquestionably a difficult time. Thus far we have been able to manage it working well with the government.

Paul Cheng - *Barclays Capital - Analyst*

Thank you.

Operator

Ed Westlake, Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

Thank you for the margin improvement chart into 2017, that was very helpful. Obviously as you shift to short cycle and Permian you probably also get, plus with deflation, some benefits on the capital intensity side as well, which should lead, as you pointed out, to returns and free cash flow. You spoke about debt balances, but what about growth say over the next decade versus dividends, buybacks? I mean any philosophical changes there?

John Watson - *Chevron Corporation - Chairman & CEO*

There aren't changes philosophically, but let me make a couple of comments because you touched on cash flow. I am very encouraged by what I see going forward on cash flow. If you look at 2016, cash flow from operations was in the $13 billion range, but it is easy to see big chunks of improvement in cash flow going forward.

Capital spending cash C&E was $18.7 billion last year, it is $15.1 billion, that is $3.5 billion. Oil averaged $44 a barrel. If it averages $55, on our sensitivity that's another $3.5 billion. We made a capital contribution to TCO, technically a loan, for $2 billion last year and didn't receive a dividend of consequence last year. So you could see another $3 billion swing on net out of TCO. And that doesn't even count Gorgon and Wheatstone.

The fourth quarter had a once in five-year shutdown at Richmond refinery that probably cost us $300 million. We had Agbami down for once in eight years, that is a very profitable investment. We had record production at TCO last year despite one of the biggest shutdowns they have ever had and that was done successfully. All these things are portending strong cash flow with obviously the underlying risks that have to be considered in price. But certainly the message going forward is good.

The prospects for us to improve earnings, improve free cash flow and increase the dividends are good. The priorities that you refer to really haven't changed. We want to increase the dividend as the pattern of earnings and cash flow permit. We need to continue to invest in the highest return opportunities and we are definitely high grading that, not funding everything that meets minimum hurdle rates. We need to do that and manage the balance sheet at the same time.

And it is something that Pat works very hard on and dividend policy ultimately is a purview of the Board. But in speaking for them we just reviewed what our plans are going forward. I think we have very good support from the full Board on this subject. I think the outlook is good and, I will tell

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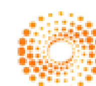

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you, four years ago I wouldn't have thought that would be the case, at moderate prices. I think it is a good story and we are going to continue in that direction.

Ed Westlake - *Credit Suisse - Analyst*

And then maybe a follow-up on the question on decline you spoke more globally. As you think about the Chevron assets and the ability to keep the decline rate, at what has been a relatively low level over the past year. I mean, how long do you think that you can keep that up? The Tengiz decline rate, when that was announced, did surprise a few folks. And so I am just wondering if there is anything that we should be concerned about as we forecast out over the next several years?

John Watson - *Chevron Corporation - Chairman & CEO*

There is always a requirement to reinvest in the business. In the case of Tengiz, it is a technically complex field and so there was needed pressure management equipment and we have to make those investments. That is very different from Bakersfield, California where there is infill drilling that you need to do, but it is a pretty well understood phenomenon. If you invest a certain amount of capital you can manage the declines.

Early last year we were down around $30 a barrel and we weren't investing in the business and really we were cutting back activity in lots of areas. There was the potential for declines to accelerate because we just weren't drilling wells and it was a very difficult time for everyone in the industry.

But if we get back to a more normal level of activity you can see 2% to 4% declines that I think would be normal. Any individual asset ultimately matures, but I don't think I can give you a lot more general guidance than that.

Ed Westlake - *Credit Suisse - Analyst*

Okay, thank you.

Operator

Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

John, you should tweet your US policy and BAT response later. My question is you mentioned the Permian story keeps getting better with an ambitious 25% production potential in the middle of next decade. I mean as much as border tax, I think investors remain focused on service cost inflation here in the US. So any color or outlook there and how much inflation would it trigger -- would it take, sorry -- to trigger a capital reallocation away from the Delaware in your plan? Or how do you see offsets there as they maybe relate to continuing improvement in well performance and otherwise?

John Watson - *Chevron Corporation - Chairman & CEO*

Yes, Evan, that is a topic that gets a lot of attention. And my view is I think if you look globally there isn't a lot of pressure on the supply chain. I don't expect continuing reductions necessarily in market conditions, but there isn't a lot of upside pressure globally.

In the Permian, activity has picked up and going forward we would expect to see some pressure. But if you look at the dramatic reductions in cost that we have been able to achieve, it has been mostly a function of efficiency measures that we think are sustainable.

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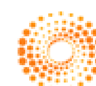

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One of the reasons I made the comments I did earlier about steady ramp up of rigs, and having a consistent and well thought through plan, is it will be important to have consistency in work crews, for example. Not all rigs are the same. You want to have the best rigs, you want to have the best crews, you want to have consistent relationships with suppliers who want to be with you through thick and thin so that you can maintain that productivity that we have worked so hard to put in place.

Our view is despite some potential for increases we don't think it is going to make a material difference to us over the next couple years. And I will confine it to that period, but we don't think it is going to make a big difference even if you should see some changes.

I should also point out, in areas like the deepwater, our costs are going to come down because we have deepwater rigs that are under contract at above market rates. Now we are going to be releasing a couple rigs here literally over the next couple weeks, so we will be down to four deepwater rigs, but over time all these rigs come off contracts. And so, when you think about the future of a deepwater development, costs are coming down, not going up. There is some risk in isolated markets in areas, but I think overall we will be able to manage it.

Evan Calio - *Morgan Stanley - Analyst*

Right. No, we kind of agree Permian is a winner here. But my follow up is on the Permian and how big is your 2017 program either in rig or well terms? I'm just trying to understand how much of the 2017 CapEx is being spent on infrastructure, pad development or otherwise that is reflected in 2018 and beyond. It affects -- it would affect the model growth path.

John Watson - *Chevron Corporation - Chairman & CEO*

We ended the year at 15 rigs, 10 operated, 5 non-operated and we are going to be ramping up over the course of this year. We expect up to 15 rigs operated by the end of the year with more on the non-operated side. Our budget is about $2 billion there and we expect to ramp up this year. In the $50 to $60 range, we are going to continue to ramp up. I just want to emphasize we want to do it efficiently.

Evan Calio - *Morgan Stanley - Analyst*

Appreciate it.

Operator

Alastair Syme, Citi.

Alastair Syme - *Citigroup - Analyst*

John, global LNG demand looked to have picked up a bit last year. Can you comment on the state of the market? And are you seeing any positive signs from your customers towards a willingness to turn new contracts in the market?

John Watson - *Chevron Corporation - Chairman & CEO*

Yes, it has been interesting and has been maybe a little surprising to some. We have had good demand for LNG. We were able to sign a couple of contracts last year so that now at Gorgon and Wheatstone we are 85%, maybe slightly more, sold which is right about where we want to be. And if you look at where spot prices have been, it is clear that there have been incremental cargoes going into China and Japan.

It has been somewhat encouraging I think. And if you look at some of the environmental objectives that are there, particularly throughout Asia, it is actually some encouraging signs.

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Now I temper that with the understanding that we have got projects that are coming online, but the long-term trend for LNG demand is good because it is competitive on price in many locations and it certainly has desirable environmental characteristics. And the security of that steady supply out of places like Australia, it remains in demand.

By 2025 or so people are looking at demand increases that could be 65% or more. It is a good story. I don't think we are yet at the place where you are going to see a lot of FIDs taken on new projects. But it has been encouraging to see a bump up in prices.

Alastair Syme - *Citigroup - Analyst*

As a follow-up to that, are you having any sort of indicative marketing discussions around the Gorgon Train 4 or Kitimat or any of these projects?

John Watson - *Chevron Corporation - Chairman & CEO*

Well, we've had discussions over the years. You need to underpin a project like Kitimat with some type of contract and offtake. And I don't want to represent that we are very far along in those discussions. We have been looking at different concepts for an LNG plant to be able to put one in more efficiently. We are proving up the resource side which is encouraging up in the Liard and Horn River area. And of course we have done some work on the pipeline.

But I don't want to advertise that is moving real quickly, primarily because of the economic side. When it comes to Gorgon, I think the first thing that you will see at Gorgon is first we have got to get the three trains lined out and operating smoothly. And I think that will happen. Then you will see the potential for debottlenecking and re-rating of those.

And I think those are probably in the queue -- certainly in the queue ahead of a Train 4 or other trains at Wheatstone for that matter, where that same sort of principle will apply. We want to really get the most we can out of the gear and hardware that we have. And then contingent on market, we have a strong resource base there, we will contemplate additional developments.

Alastair Syme - *Citigroup - Analyst*

Thank you.

Operator

Roger Read, Wells Fargo.

Roger Read - *Wells Fargo Securities - Analyst*

I guess a quick question for you, Pat, just to come back to the comment about the "other" expense in the quarter. You said it wasn't ratable. Was there anything in there that is likely to reverse next year or that you can think of that we should expect next year in terms of higher taxes or unusual payments?

Pat Yarrington - *Chevron Corporation - VP & CFO*

Yes, I think it is a good question. I wouldn't say that there is anything necessarily that is going to reverse. An example that you might not have thought of is when we have as many retirements as we have had, for example. out of the US. John referenced over the current year we have 6,200 fewer employees this year, and over the last couple of years it is about 9,500.

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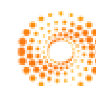

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For example, if you look at the US, we are slightly underfunded on our pension and when those retirements occur then of course you need to accelerate the recognition of that pension settlement cost. So that is an example of what is sitting there in that corporate and other sector. And since we anticipate moderating, certainly we are not going to have the same kind of employee reductions, that kind of thing will moderate going forward.

There is a fair amount of lumpiness just from a tax sense where we continually every quarter go through and make assessments of our outstanding positions and make the appropriate bookings that are required. I can't say that there is any pattern to that necessarily.

As you look forward into 2017, I would say that one thing that probably is going to continue to grow would be our interest expense because our debt balances are higher. We have had a guidance range of $350 million to $400 million, and it's probably towards the high end of that range. Probably you want to think in your mind around $400 million for each quarter for 2017.

Roger Read - *Wells Fargo Securities - Analyst*

Okay, great, thanks. And then, John, maybe following up on Alastair's question but stepping out a little broader on FIDs. Is there, and I recognized the Analyst Day, that it might be more detailed coming then. But as you think about kind of moving into the offshore, are costs down enough now, are prices high enough and the returns attractive enough we should expect something in 2017? Or is it still maybe more patience and waiting?

John Watson - *Chevron Corporation - Chairman & CEO*

I think most of the money that we will be spending, in fact the four deepwater rigs I mentioned will be doing development drilling. I think it is a bit early to think about FID on something on Anchor or Tigris. We are just completing a couple of appraisal wells. We need to evaluate those.

We are looking at different concepts, for example, in the deepwater. There is technology that needs to be qualified there to be sure we can move them along. We have got industry groups that are working with vendors and suppliers to try to take cost out. So I would say it's a work in progress.

There is plenty of work to do that I would call brownfield activity off of existing facilities. And so that is where most of the money will be spent. We've talked previously about Rosebank. Rosebank, Anchor, Tigris, all are potential FIDs, but we just have to get the cost, resource development balance right. I wouldn't think that for any of those big ones we are likely to see an FID in 2017.

Roger Read - *Wells Fargo Securities - Analyst*

Great, thank you.

Operator

Guy Baber, Simmons & Company.

Guy Baber - *Simmons & Company - Analyst*

I just wanted to follow up on the cash margin discussion a little bit more and slide 12 where you highlight that improvement. But you introduced a slide I believe around a year ago that highlighted cash margins in 2017 at about $20 a barrel at $60 a barrel oil. But since then over the last year I believe your cost reductions have been more successful than anticipated, some lower margin barrels have come out of the portfolio and the Permian is looking better.

So, can you just help us to understand how your view on those 2017 cash margins has maybe evolved over the last year or so? And is it reasonable for us to think that those margins could be higher at the same price?

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John Watson - *Chevron Corporation - Chairman & CEO*

Yes, we put this chart in there on slide 12 to kind of bait you a little bit and to whet your appetite. And I think we successfully did that. I think all the things you point to are what we are trying to get at.

I am going to push you off a little bit though and tell you that Jay Johnson will talk more about what we see in cash margins and our portfolio with the cost improvements you are seeing in place, and the portfolio actions that we are taking. We will update you a little bit more at the SAM, Guy.

It is a really good question and I think it is one of our strengths and one of our good stories. But I will push you off until the SAM in five weeks or so.

Guy Baber - *Simmons & Company - Analyst*

Okay, understood. And then the follow up for me, I thought your reserve additions and the replacement metrics were pretty favorable overall in light of the environment. Could you perhaps share with us the early view on F&D costs this year? And then given F&D can be lumpy in any year and the cost deflation you have seen, your shift to prioritizing short cycle brownfield, do you have a view on maybe the new normal of F&D for your business going forward to 2020?

John Watson - *Chevron Corporation - Chairman & CEO*

Well, I agree with you that the reserve replacement numbers are pretty good. I will tell you, if I go back to the beginning of the year, we weren't expecting to be near 100%. So a lot of the work that the people in our business units did, we got them focused on shorter cycle activity and they did some excellent work in terms of characterizing reservoir seismic work and others to enable us to appropriately book reserves. So you are right, we had a good year and particularly given that we underspent dramatically relative to plan. So all of that is good.

F&D costs, if you think of the oil and gas disclosure, can be really lumpy. And you really have to look at it averaging over time. We have tended to give you development cost on a project-by-project basis. It doesn't always line up exactly with the proved reserve bookings that tend to be how things are viewed in the oil and gas disclosure.

I won't make comments on what will appear in the oil and gas disclosure because that is a very specific set of calculations. But I think as we look forward to the security analyst meeting we are going to have in a few weeks, I think Jay will be able to talk a little bit more about progress in the Permian and what we are doing on deepwater and other asset classes to give you a better idea of what development costs for any of those might be. So we will give you more. It is a real good question but we need more time to talk about than I have got here today.

Guy Baber - *Simmons & Company - Analyst*

Understood.

Operator

Anish Kapadia, TPH.

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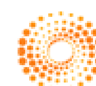

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Anish Kapadia - *Tudor, Pickering, Holt - Analyst*

My first question is -- correct me if I am wrong, but Chevron seems like it will be free cash flow positive in 2017 after dividends around current oil prices. And then if you factor in disposals certainly at the top end of the range, you are going to generate some significant excess cash flow. So I was wondering if you could talk about the priorities for the use of that excess cash flow this year.

John Watson - *Chevron Corporation - Chairman & CEO*

Well, sure. The expectation is to be cash flow positive between all those things you mentioned -- the ongoing improvements, finishing capital projects, lower spending, some asset sale proceeds, etc. We do expect to be cash flow positive.

The priority on the dividend has been -- we said we will increase the dividend as the pattern of earnings and cash flow permits. So we will take stock of it, the Board takes stock of it, and every quarter we take a look and will increase it as we find appropriate.

The one point I'd try to make is we are very cognizant that we have increased the dividend 29 years in a row. I view that any increase in the dividend would be something I would want to be able to sustain in perpetuity. Going in that would be my expectation. We always want to increase the dividend in a way that we can sustain over a period of time.

We have given you the guidance on capital. I don't expect us to exceed the capital numbers that we have certainly. We are cognizant of the dividend policy and we are going to maintain a strong balance sheet. But I am not going to give you specific guidance on the dividend at this time, other than to say I am acutely aware of how much we all like dividends and so is the Board.

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

Thank you. And a follow up going back to the Permian again. Just to kind of think of it bigger picture. I was just wondering how important is it for you -- is it to you for the market to recognize the value of your Permian acreage? And if it is important how do you get the market to recognize that?

And I am kind of thinking of it in the terms of you can easily bring value forward by running a lot more rigs on the acreage or disposing of some of your acreage that I suppose you -- given the huge inventory you might not be drilling for 20, 30 years. So just how do you balance managing the asset versus kind of showing the value to the market?

John Watson - *Chevron Corporation - Chairman & CEO*

First, it is very important for us to have value realized in a reasonable period of time. There is no intention to warehouse acreage that we are not going to get to. In fact, if you look at the asset disposals we have made, we have been high grading our portfolio very steadily. What I don't want to do is dispose of acreage prematurely before we have been able to assess it fully.

If we had followed what some wanted us to do we would have sold things a couple years ago that are now worth five times what they were. So we continue to assess it. If we find there is acreage in the portfolio that we are not going to get to for a long period of time I am more than happy to monetize it. But that is not the way we think that we can realize the most value.

And I will just make a minor editorial comment. There are a lot of people with ulterior motives out there when it comes to disposal of assets. We are prosecuting our agenda, our costs are competitive and we will utilize our acreage and expose that value to shareholders in a way that will give them confidence that value will be realized from it. We recognize that we need to continue to give more information and provide that so that you have confidence. It is a very fair question and it is on us to do that and you will see a lot more in March.

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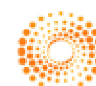

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Anish Kapadia - *Tudor, Pickering, Holt - Analyst*

Very clear, thank you.

Operator

Blake Fernandez, Howard Weil.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Back on the deepwater, Roger's question, Mad Dog was noticeably absent and your partner and the operator has announced sanctioning there. Unless I missed it I don't believe we have heard from Chevron. So can you talk about that and whether that is in the 2017 budget?

John Watson - *Chevron Corporation - Chairman & CEO*

Yes, in a word, it is.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Okay.

John Watson - *Chevron Corporation - Chairman & CEO*

We have a relatively small interest. We are not the operator but, yes, we've worked with the operator. We have been able to get costs down. They have taken FID. We have not yet taken FID but I expect that we will.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Great, okay. And the second question, Pat, this may be for you. But you mentioned about $4 billion of deferred tax. And I assume that that begins to be a net positive once the US Upstream is net income positive, which it was this quarter. So is it fair to think that that is kind of a cash contributor into next year -- or this year I should say?

Pat Yarrington - *Chevron Corporation - VP & CFO*

I think it will be a partial cash contributor in 2017 because we have the ability in the US to take some of the tax losses and carry them back to earlier periods where we had taxable income. Depending upon what happens to prices and how we operate in the U.S., both Upstream and Downstream, then we will get a schedule of repayments over time.

Blake Fernandez - *Scotia Howard Weil - Analyst*

Thank you very much.

John Watson - *Chevron Corporation - Chairman & CEO*

Okay. We went a little longer. I wanted to get as many of you in as I could. Thank you for your time today. We appreciate your interest in the Company. We will look forward to talking to you again in March. And until then we will continue to prosecute our agenda. Thank you.

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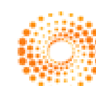

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Operator

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

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